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Canada - Banking and Commerce,
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

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BANKING AND COMMERCE

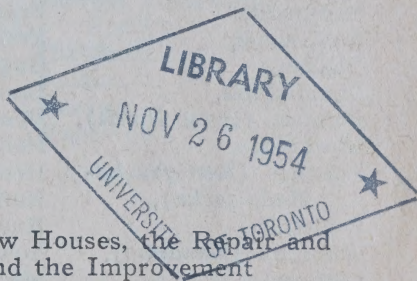
Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.



TUESDAY, FEBRUARY 2, 1954

WITNESS:

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.
and Messrs.

Adamson,	Fleming,	Mitchell (<i>London</i>),
Applewhaite,	Follwell,	Monteith,
Arsenault,	Fraser (<i>Peterborough</i>),	Nickle,
Ashbourne,	Fraser (<i>St. John's East</i>),	Noseworthy,
Balcom,	Gagnon,	Philpott,
Benidickson,	Hanna,	Picard,
Bennett (<i>Grey North</i>),	Hees,	Pouliot,
Blackmore,	Hellyer,	Quelch,
Boucher (<i>Restigouche-</i>	Henderson,	Robichaud,
<i>Madawaska</i>),	Huffman,	Rouleau,
Breton,	Hunter,	Stewart (<i>Winnipeg</i>
Cameron (<i>Nanaimo</i>),	Low,	<i>North</i>),
Cannon,	Macdonnell,	Thatcher,
Cardin,	MacEachen,	Tucker,
Crestohl,	Macnaughton,	Weaver,
Croll,	Matheson,	Wood—50.
Dufresne,	McIlraith,	
Dumas,	Michener,	

R. J. GRATRIX,
Clerk of the Committee.

ORDERS OF REFERENCE

WEDNESDAY, December 16, 1953.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:—

Messrs.

Adamson,	Fleming,	Monteith,
Applewhaite,	Follwell,	Nickle,
Arsenault,	Fraser (<i>Peterborough</i>),	Noseworthy,
Ashbourne,	Fraser (<i>St. John's East</i>),	Philpott,
Balcom,	Fulton,	Picard,
Benidickson,	Gagnon,	Pouliot,
Bennett (<i>Grey North</i>),	Hanna,	Quelch,
Blackmore,	Hellyer,	Robichaud,
Boucher (<i>Restigouche-Madawaska</i>),	Henderson,	Rouleau,
Breton,	Huffman,	Smith,
Cameron (<i>Nanaimo</i>),	Low,	Stewart (<i>Winnipeg North</i>),
Cannon,	Macdonnell (<i>Greenwood</i>),	Thatcher,
Cardin,	MacEachen,	Tucker,
Crestohl,	Macnaughton,	Weaver,
Croll,	Matheson,	Wood—50.
Dufresne,	McIlraith,	
Dumas,	Michener,	
	Mitchell (<i>London</i>),	

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon; with power to send for persons, papers and records.

THURSDAY, January 28, 1954.

Ordered,—That the following Bill be referred to the said Committee:
Bill No. 102, An Act to Promote the Construction of new Houses, the Repair and Modernization of existing Houses, and the Improvement of Housing and Living Conditions.

FRIDAY, January 29, 1954.

Ordered,—That the name of Mr. Hees be substituted for that of Mr. Fulton; and

That the name of Mr. Hunter be substituted for that of Mr. Smith on the said Committee.

TUESDAY, February 2, 1954.

Ordered,—That the quorum of the said Committee be reduced from 15 members to 10, and that Standing Order 63(1)(d) be suspended in relation thereto.

Ordered,—That permission be granted the said Committee to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print from day to day 750 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Attest:

LEON J. RAYMOND,
Clerk of the House

REPORT TO THE HOUSE

TUESDAY, February 2, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That the quorum be reduced from 15 members to 10, and that Standing Order 63(1) (d) be suspended in relation thereto.
2. That permission be granted to sit while the House is sitting.
3. That it be empowered to print from day to day 750 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 2, 1954.

The Standing Committee on Banking and Commerce met at 10.45 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Benidickson, Bennett (*Grey North*), Blackmore, Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hees, Henderson, Huffman, Hunter, Low, Macdonnell, MacEachen, Macnaughton, McIlraith, Michener, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Rouleau, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation, and Mr. H. Woodard, Assistant Secretary.

A quorum having assembled the Chairman read the Order of Reference.

On motion of Mr. Wood:

Resolved,—That the Committee recommend to the House that it be empowered to print from day to day 750 copies in English and 300 copies in French of the Committee's Minutes of Proceeding and Evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Cardin:

Resolved,—That the Committee recommend to the House that its quorum be reduced from 15 members to 10, and that Standing Order 63(1)(d) be suspended in relation thereto.

On motion of Mr. Tucker:

Resolved,—That the Committee recommend to the House that it be authorized to sit while the House is sitting.

On motion of Mr. Applewhaite:

Resolved,—That a Steering Committee of nine members be appointed by the Chairman.

The Committee then proceeded with consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Mansur was called and made a statement on the history and operation of the National Housing Act and gave a general review of the changes proposed in Bill 102.

During the course of his statement the Witness tabled various charts and tables; the said charts and tables were ordered to be printed as *appendices* to this day's minutes of proceedings and evidence, viz:

1. Table "A" Summary of Federal-Provincial Projects Land Assembly
—Appendix "A"
2. Table "B" Net Loans Approved, 1953, The National Housing Act
—Appendix "B"

3. Chart "A" Sources of the New Canadian Housing Dollar, 1953—*Appendix "C"*
4. Table 1—Expenditures on New Housing by Source of Funds, by Year, 1950-52, and First Nine Months, 1953—*Appendix "D"*
5. Table 2—Government Funds used for New Housing by Year 1950-1952 and First Nine Months, 1953—*Appendix "E"*
6. Table 3—Gross Mortgage Loan Approvals by Lending Institutions and By Type of Loan, by Year, 1947-1953—*Appendix "F"*
7. Table 4—Mortgage Loans on Real Estate Outstanding and Total Admitted Assets By Type of Lending Institution, 1939 and 1946-1952—*Appendix "G"*
8. Table 5—Estimates of Mortgage Investments by Life Insurance Companies, Attributable to Increases in the Proportion of Mortgages to Total Assets, by Year, 1948-1953—*Appendix "H"*
9. Table 6—Net Sales of Government of Canada Bonds by Life Insurance Companies (\$ Millions)—*Appendix "I"*
10. Table 7—Government of Canada Bonds, and Total Assets for Ten Canadian Life Companies.—*Appendix "J"*
11. Table 8—Distribution of Total Assets and Liabilities to the Public of Six Canadian Loan Companies, 1946, 1950-1952—*Appendix "K"*
12. Table 9—Distribution of Assets of Company and Guaranteed Funds, and Liabilities for Guaranteed Funds of Nine Canadian Trust Companies, 1946, 1950-1952.—*Appendix "L"*

At 12.10 o'clock p.m., the Witness having completed his statement, the Committee adjourned to the call of the Chair.

R. J. GRATRICK,
Clerk of the Committee.

EVIDENCE

FEBRUARY 2, 1954

10.45 a.m.

The CHAIRMAN: Gentlemen, our first witness today is the President of Central Mortgage and Housing Corporation, Mr. D. B. Mansur. I asked him to make a full statement and he has taken me at my word, for which we should be thankful.

I must ask you to permit Mr. Mansur to read his statement during which time you may make your notes, there will be ample opportunity at subsequent meetings to examine him on all aspects of his statement. Very well, Mr. Mansur.

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation, called:

The WITNESS: In the consideration of bill 102 by this committee, I felt it might be helpful if this statement dealt with (1) a short history and review of operations under the National Housing Act up to the present, (2) the present sources of mortgage funds, (3) a summary of the changes which are proposed in bill 102 and finally (4) an indication of the manner in which an insured mortgage loan might be processed. I will deal with these subjects in that order.

NATIONAL HOUSING ACT—HISTORY AND OPERATION

Federal housing legislation on a continuing basis was first introduced in Canada in 1935 with the passage of the Dominion Housing Act. This legislation was based on three central ideas:

1. That it would be possible, through government assistance, to get houses built that would not otherwise have been built and thereby improve the standard of living of the Canadian people.
2. That the building of additional houses would reduce unemployment that existed at that time.
3. That with government participation a set of housing standards could be required as a condition of the mortgage loan, thereby improving the quality of new housing in Canada.

It was in this legislation that the principle of joint lending was first introduced. Under this arrangement high-ratio loans were made with three-quarters of the mortgage funds coming from the lending institutions and one-quarter from the federal government. Loans for 4,899 housing units were made under the Dominion Housing Act.

In 1937 the Home Improvement Loans Guarantee Act received royal assent. This legislation provided for guarantees to chartered banks and other approved lending agencies against losses on loans made for the improvement or extension of residential property. This guarantee was limited to loans in the aggregate of \$50 million. In the period up to 1940, a total of 126,000 loans were approved under this guarantee in the amount of \$50 million as authorized.

In 1938 the Dominion Housing Act was repealed and replaced by the National Housing Act 1938. The new act, based on three years' experience under the original act, was designed to increase the coverage of joint mortgage lending and had that effect. In addition, it was at this time that provisions were first introduced to assist in the housing needs of families of low income. The National Housing Act, 1938, in addition to its joint lending provisions, contained authority for loans to limited dividend corporations and to municipal housing authorities on particularly favourable terms. The outbreak of war in 1939 prevented the use of these latter provisions but the joint lending facilities under the National Housing Act, 1938, were made available throughout the war years. Approvals reached a high of about 6,000 units in 1939, and were 5,600 in 1940, 4,300 in 1941 and lower amounts in later years. Under the National Housing Act, 1938, loans were made for 21,414 housing units.

In 1944 parliament passed the present National Housing Act and in 1945 for its operation created Central Mortgage and Housing Corporation. This act which, with amendments, constitutes the present National Housing Act, continued the principle of joint lending. It re-enacted the limited dividend company provisions of the 1938 act but repealed the provision for loans to municipalities for low rental housing. In addition, it made provision for the construction of rental housing by life insurance companies, operating both individually and mutually. The slum clearance provision was then first introduced. It also provided, subject to proclamation, provisions for loans from the banks for home improvement and home extension similar to the Home Improvement Loans Act of 1937. It also provided funds for housing research and community planning.

In the post war years, as need arose, parliament added further provisions to the National Housing Act, 1944, under which the present operations are now taking place. I will mention some of them.

When the war came to a close there was a great need for houses to be built for veterans' ownership. Many of the house builders had grave doubts about whether houses built by them could be sold at a price level which seemed high in relation to the past. As a result, the integrated housing plan was introduced. In consideration of a fixed maximum sale price and a veterans' preference, the builder was given assistance in the securing of building materials then in short supply as well as an undertaking that if the house could not be sold it would be bought by Central Mortgage at an agreed price. Under this plan, 17,000 houses were built for sale to veterans.

Ever since the enactment of the Dominion Housing Act in 1935, availability of joint loans for home ownership in the smaller and more remote communities has been a problem. At one stage the lending institutions agreed to look after applications from the smaller cities and outlying areas. Each company operating under the Act took a geographical area as its responsibility. Although an improvement, this was not too successful and the complaints about lack of N.H.A. loans in smaller communities became more numerous and acute. To meet this problem, parliament in June of 1947 gave power to Central Mortgage to make loans under the same terms and conditions as could be made by the lending institutions where, in the opinion of the corporation, loans were not being made available by the lending institutions. In the original instance this authority was used by Central Mortgage in communities up to 5,000 of population. However, in 1952, when the lending companies had generally withdrawn their activities into the larger communities, Central Mortgage, with the concurrence of the Government, extended its direct lending and made loans available in communities up to 55,000 population. Symptomatic of the present

limitations in the availability of mortgage funds, practically all loans in communities up to this size are being made by Central Mortgage, save for some of the smaller communities in western Ontario where the lending institutions are making joint loans. This legislation has had the effect of making loans under the National Housing Act available to credit-worthy borrowers in all parts of the country. Since the introduction of this direct lending policy Central Mortgage has approved 6,745 home ownership loans in over 750 communities throughout Canada.

In 1948 it was found that in the rental field many builders and prospective landlords were hesitant to proceed because they doubted that economic rentals based on higher construction costs would be sustained by long term effective demand. To meet this condition parliament passed an amendment to the National Housing Act, 1944, introducing the rental insurance plan. It was provided that Central Mortgage could guarantee a rental income for approved new rental projects. In practice this guarantee is sufficient to meet principal, interest, taxes, operating expenses and a 2% return on the estimated equity of the owner. The owner of the rental project pays a premium for the insurance and undertakes for the first three years to lease the units at a maximum allowed rental, 85% of which is the amount of the insured rental. For most of these projects loans were made by the corporation under the direct lending powers previously mentioned. The plan stimulated the construction of rental properties and 21,700 rental housing units have been insured, of which 16,500 were in projects financed by the corporation.

Up to 1949 the National Housing Act made no provision for subsidised rental housing. In that year the Act was amended by the addition of section 35, which provided for a Federal-Provincial partnership in the field of land assembly and subsidised rental housing. It will be recalled that this arrangement provided for a 75%-25% financial participation between the Federal Government and each of the provinces in respect to both the capital cost and the operating losses of the projects. In the case of land assembly the partners acquire raw land, install services and sell the land to builders and home owners. Rental projects may be owned and financed by the partnership on the basis of economic or full recovery rentals or subsidised rentals with the level of rental being geared to the income of the family occupant.

Nine of the ten provinces have passed complementary legislation authorizing agreements with Central Mortgage to initiate projects. In seven provinces land assembly and/or rental projects have been undertaken. Mr. Chairman, I have with me table A (See Appendix "A") being a list of land assembly and rental projects completed, underway and committed under the federal-provincial arrangement. It is the second sheet, as at the present.

Immediately after the outbreak of war in Korea, it became apparent that the migration of a large number of people to our defence plants would require special measures to house them. Under powers already contained in the National Housing Act, authority was given to Central Mortgage to make loans to defence workers, either in the form of home ownership or rental housing. In the home ownership field the principle adopted was 90 per cent loans, on very much the same basis as the integrated housing plan for veterans. There was a prohibition against a sale by a merchant builder to a defence worker until the house was complete. For those builders who desired it, a buy-back provision at 95 per cent of the maximum selling price was made available on payment of a premium of one third of 1 per cent of the buy-back price. In this field, 2,836 loans have been made, all of which have been directly financed by Central Mortgage.

In the rental field, the principles of rental insurance were introduced, with a priority of allocation to defence workers. Direct loans for 780 units have been made by Central Mortgage on an 85 per cent basis.

Another major amendment to the National Housing Act was enacted in 1948 when parliament provided that Central Mortgage would take over the assets and liabilities of Wartime Housing Limited. Because a substantial veterans' rental program was under construction with the 1948 and 1949 programs of 12,000 units to follow, Parliament gave Central Mortgage construction powers to be exercised to the extent that money was appropriated by parliament for such purposes.

Now, Mr. Chairman, this has been a brief summary of the National Housing Act in its present form. At the time this committee was reviewing the annual report of Central Mortgage and Housing Corporation two years ago, I made a more detailed statement about the operations of the Act and the organization of the corporation. My remarks of today can be supplemented by reference to my evidence at that time.

Before moving on to the next subject, perhaps I should comment upon the effectiveness of the operation of the Act. Subject only to limitations by reason of mortgage funds being in greater demand than supply, I believe that the Act is both effective and successful. Conventional mortgage loans in the range of 50 per cent to 60 per cent are as high as can be and will be made by private lenders. On the other hand, for social reasons high ratio mortgage loans are needed so that the home owner can buy a house with a small down payment. The Act has had the effect of bridging this gap. It introduced into Canada for the first time—now the general practice even in conventional mortgages—the advantages both to the borrower and the lender of monthly payments of principal, interest and taxes. It has raised the housing standard, both for home ownership and rental accommodation, in respect to design, plan, sideyards, size of windows, plot plan, construction and suitability of materials. Any doubts on this score can be resolved by comparing houses and projects under the Act with those financed otherwise. Another benefit of the Act is that these differences are not as great today as they were in the early years of the Act, indicating that the physical requirements under the Act have competitive application and influence upon all new housing. The Act has been an important factor in a post war housing program which has met current needs and relieved some of the congestion accumulated through the war years. Joint loans for about 175,000 home ownership and rental units have been approved in the post war years. As I mentioned a few moments ago the Act has been adapted to take care of special situations and provide needed stimulus. The buy back provisions of the integrated plan and the insurance of rentals are examples in point. The federal-provincial partnership arrangements have made possible land assembly operations to increase the supply of serviced land as well as public housing for families whose incomes are insufficient to pay economic rentals.

As the minister mentioned in his speech upon the second reading of this bill, about 40 per cent of the starts in 1953 were as a result of various provisions of the Act. I believe that without the Act, housing starts in Canada in 1953 would have been considerably short of 104,000 units. Although international comparisons are not valid in the housing field and seldom used unless favourable to the user, it is to be noted that in the United States the provisions of the F.H.A. and V.A.—the equivalent to our National Housing Act—account for about 30 per cent of the new starts.

In my opinion, the success of the National Housing Act, 1944, has been due to its flexibility, with Parliament making amendments to the Act so that new legislation looks after new situations as they arise. This has been so for the last eight years and the ever changing circumstances characteristic of the housing field make a continuation of this practice most likely. In my view the present consideration being given to bill 102 is another step along these lines.

To some degree in 1953 operations under the Act have been limited by inability of the present group of lending institutions to provide sufficient funds to meet the demand for joint loans. There is every prospect that over the next few years this limitation will become more important. To maintain housing starts at the 1953 rate under present arrangements would, I believe, require increased direct lending by Central Mortgage. Starts at a higher level would further increase this requirement.

The major change contemplated by bill 102 is to meet this situation by increasing the number of lenders under the Act and by making a larger sector of savings available to finance housing.

Mr. Chairman, I have with me table B (*See Appendix "B"*) showing net loans approved under the Act in the year 1953.

SOURCES OF MORTGAGE FUNDS

Mr. Chairman, this brings me to the second subject, namely present circumstances in respect to the sources of mortgage funds. I thought it might be helpful to the Committee if I indicated to them the sources of the Canadian dollar for all new housing in 1953. Mr. Chairman, I have with me a Chart A (*See Appendix "C"*) which may assist the members of the Committee in following the remarks which I will now make.

In 1953, when there were over 100,000 starts and close to 100,000 completions, slightly more than a billion dollars was spent for new housing in Canada. The figures which I will use are based on information for the first nine months of 1953. They are similar to 1952 and I do not think that the figures for the last three months will change the ratios.

It will be noticed from the chart that the owners of new housing themselves supplied about fifty-nine cents of the new housing dollar. Private mortgage lenders such as the lending institutions, credit unions and individuals made mortgage loans representing twenty-eight cents. Governments provided the remaining thirteen cents, either in the form of direct expenditures on housing or in the form of mortgage loans.

Referring to the chart, it will be noticed that full owner financing provided twenty-eight cents of the housing dollar. By full owner financing I mean construction financed in full by the owner without mortgage assistance. To me this is a surprisingly high proportion of the whole. This sector of the housing program has a number of different characteristics. There are some home purchasers who do not need mortgage financing because they have cash or securities or existing real estate which may be liquidated, sufficient to cover the price of their new house. This group includes well-to-do people, as well as those unable to borrow as a result of their indulgence in peculiarities of design and site selection which prevent them from raising a mortgage loan. Another group of people are those who finance homes without the use of mortgage loans, combining their savings with their own labour to pay for and build their houses. We find in many cases the savings are insufficient but they are able to secure credit of other kinds during the period of construction. I think that we are safe in concluding that this group of owners who provide all their own financing, arising out of affluence or out of frugality or hard work, will always make a substantial contribution to the Canadian housing program. On the other hand, I do not think we can look to this group for any large expansion in the over-all housing program in the immediate future.

Direct government construction for housing to be owned by it accounted for 4 cents of the Canadian housing dollar. This sector consists of married quarters for military personnel, public housing undertaken jointly under federal-provincial arrangements and other lesser housing activities of the government.

The remaining 68 cents of the new housing dollar is involved in the housing facilitated by mortgage loans of one kind or another. Of this 68 cents, 31 cents, or just under one-half, comes in the form of owner's equity. The remaining 37 cents represents new investment by mortgage lenders, of which the lending institutions account for 21 cents.

In our discussions today we are particularly interested in that segment of the Canadian housing dollar which is spent because mortgage loans are made by the lending institutions. In this sector there is owner equity of sixteen cents, twenty-one cents from the lending institution and five cents from Central Mortgage. The chart shows the components of this forty-two cents.

Table No. 1 (*See Appendix "D"*), which may be of interest to the members of this committee, shows total outlay for new housing in its various components for the years 1950 to 1952 and for the first nine months of 1953 in the same form as the chart. Indeed these figures are the basis of the chart. Members of the committee will notice that about thirteen cents of the new housing dollar arises from government's investment in housing. For further details on this figure, I have with me Table No. 2 (*See Appendix "E"*) which shows the various activities in which government funds were used for new housing by year 1950 to 1952 and the first nine months of 1953.

I have referred to these figures because it seems to me that in considering the changes in this legislation, it is useful for the members of the committee to know the magnitude of the various portions of the total volume of new housing. Although the housing made possible by N.H.A. and conventional mortgage loans from the lending institutions is somewhat less than one half of all housing, it is by far the largest component of the whole. With the exception of direct construction by government, it is the most volatile component and the one through which steps by government will have the most effect. Therefore the balance of my remarks on this subject will be limited to comments on the activities and funds of the three major groups of lending institutions—the life insurance, loan and trust companies.

In the seven years 1947 to 1953 life insurance companies approved mortgage loans of all kinds in amount of \$2,184 millions including the corporation's share in joint loans. For new residential construction loans, approvals of the life insurance companies were \$1,463 millions, representing 86 per cent of the mortgages approved for this purpose by all lending institutions. Loan companies approved almost 10 per cent, trust companies just over 3 per cent and other companies 1.5 per cent of new loans for residential construction. Mr. Chairman, I have with me Table No. 3 (*See Appendix "F"*), showing gross mortgage loan approvals by lending institution and by type of loan for the years 1947 to 1953.

Mortgage lending by the life companies since the end of the war has been dependent not only on new investible funds accruing to these companies, but also on a change in the composition of their assets towards relatively higher mortgage holdings. At the end of 1945 Canadian life companies with Canadian assets of \$2,082 millions, held \$272 millions or 13 per cent of these assets in mortgages. The proportion of total assets in Canada held in mortgage form has been increasing ever since, and by the end of 1952 reached \$1,003 millions or 29.7 per cent. Mr. Chairman, I have with me table No. 4 (*See Appendix "G"*), which shows mortgage loans on real estate and total assets by type of lending institution for the years 1939 and 1945 to 1952. I think that these figures show that there has been a desire by the life companies to increase the ratio of mortgage holdings in their total portfolio.

I like to think of the mortgage loan advances by the life companies as consisting of two parts. The first part is that amount of mortgage advances which would be just enough to hold constant in each year the proportion of mortgage loans to total assets. The second part represents mortgage advances over and

above the amount necessary to hold the mortgage ratio constant, or in other words, the amount which has had the effect of increasing the proportion of mortgage to total assets in each year. Mr. Chairman, I have with me table No. 5 (*See Appendix "H"*), which is an estimate by Central Mortgage of mortgage investments by life companies in accordance with this concept.

My reason for this reference is my belief that the life companies will not go on indefinitely increasing the proportion of their total assets held in mortgage form. It has been this increasing proportion that has made possible operations of the National Housing Act at a high level. I do not believe there is any assurance that over the next few years the life companies will continue to make mortgage investments over and above those required to hold mortgages in constant relative position in their portfolio. Had the mortgage ratio not increased, life company advances in 1952 would have been down by \$52 millions and in 1953 by about \$70 millions.

I cannot predict the future investment policies of the life companies. However, I think that my view on this subject is shared by at least some of the life companies. In the *Financial Post* of December 26th, 1953, Mr. J. T. Bryden, president of the Dominion Mortgage and Investments Association, drew attention to the problem. He is quoted:

The outlook for mortgage funds is difficult to assess. Lending institutions would seem to be approaching the position where mortgage investments are reaching a more normal relationship with respect to total assets, and further increases in mortgage investments may have to be more directly proportional to the increase in their assets than has been the case in the last several years.

Again, on January 9th, 1954, the *Financial Post*, Mr. G. L. Holmes, president of the Canadian Life Insurance Officers Association, is reported to have said:

Future increase in mortgage investments will depend to a greater extent than in the past on the growth of companies' assets and repayments on existing loans.

I do want to make it clear Mr. Chairman, that by these comments I imply no criticism of the life companies. Quite the reverse, because they have carried the operation of the Act to levels beyond the expectations of those relying on it for the post-war building program. In addition they have made a large number of conventional loans on new houses. I do not believe that criticism of the lack of interest of the life companies as a whole in our housing program has been justified. But in allocating their resources they must take account of investment outlets and opportunities other than mortgages on new residential construction. They cannot invest funds that they do not possess. Moreover, they are the only good judges of the mortgage ratio which should be maintained in their portfolio of assets. Rather, I bring this situation to the attention of the members of this committee because I think, in considering the proposals under Bill 102, it is an important consideration. The desirability of, and need for additions to the present group of lenders under the Act turns in large measure on this very point.

The heavy mortgage investments of life companies in the post-war period have been facilitated by the liquidation of federal government bonds. At the end of the war life companies had large holdings of federal government obligations. Since then they have been net sellers of such bonds. Net liquidation of federal government bonds by life companies operating in Canada reached a peak of \$185 millions in the year 1950. Mr. Chairman, I have table No. 6 (*see appendix "I"*) which shows the net sales of Government of Canada bonds by life insurance companies in the years 1945 to 1952.

At the end of 1946 federal bond holdings in amount of \$1,111 millions represented 57 per cent of the total Canadian assets of the ten largest Canadian companies. Mr. Chairman, I have with me table No. 7 (*see appendix "J"*) which shows that these holdings have declined both relatively and absolutely since then, so that at the end of 1952, at \$632 millions, they represented 22 per cent of the total Canadian assets of these ten companies.

My own view is that there probably is a proportion of mortgage to total assets above which the life companies would be reluctant to go, and there is also a proportion of federal government bonds to total assets below which they would be reluctant to go. It seems clear to me that we cannot count on a continued liquidation of federal government bonds to provide funds for investment under the National Housing Act.

I cannot give this committee an expert opinion upon the mortgage lending potential of the life companies over the next few years. However, on the basis of the figures which I have presented, as well as the statements which I quoted earlier, I think there is more than a possibility of mortgage lending by life companies falling below the level of 1953. I do not think it would be reasonable to expect an appreciable increase beyond present levels. Such a prospect does not fit our housing needs.

The financing of the 1953 housing program depended on the continued willingness of the life companies to increase their relative holdings of mortgages. I have already mentioned that of total mortgage advances of about \$250 millions by Canadian life companies in 1953, about \$70 millions represented an excess over and above the amount required to keep mortgages constant in relation to other assets. Of this \$70 millions, perhaps \$50 millions represented advances on new residential construction. Such advances brought forward an equity contribution of \$33 millions from home owners and a \$12 million participation by Central Mortgage as its share of joint loans. If this reasoning is good, then out of the total housing program of about one billion dollars, \$95 million, or about 10 per cent, can be considered to have been made possible by the incentive of the life companies to increase their ratios of mortgage holdings. Should this incentive discontinue, there does not appear to be any substantial source of private mortgage funds under present arrangements to provide an offset, much less to increase loans under the National Housing Act from the 31,000 units of 1953 to a level of say 40,000 to 50,000 units. If, for social and economic reasons, a housing program equal to or larger than that of 1953 is required, there must be activity under the National Housing Act at present or even greater levels. In fact, I believe that any increase in the present housing program will require National Housing Act financing in greater proportion than the present program as a whole. It has been mentioned earlier that about 40 per cent of the new 1953 starts were financed under the National Housing Act. I believe that if the 1953 housing program had been 20,000 units more, then National Housing Act financing would have been required for perhaps 60 per cent of the addition.

Moving now to the trust and loan companies, their mortgage loan approvals, 1947 to 1953, amounted to \$793 million, or 26 per cent of all mortgage loan approvals by lending institutions. Of this amount their mortgage loan approvals for new residential construction totalled \$217 million, representing 13 per cent of the lending institutions' total. Although the activities of these companies are less than the life insurance companies, they often take place in areas in which the trust and loan companies are the largest source of mortgage funds. For that reason, the importance of the trust and loan companies, even in the new construction field, is more than would be indicated by their proportion of the aggregate of new residential lending by the lending institutions as a whole.

But in looking for increased sources of new mortgage funds, it is to be noted that the loan companies already have a high proportion of their total assets—71 per cent at the end of 1952—in mortgage form. The main source of funds to increase their mortgage accounts arises from increased deposits and sale of debentures. During recent years their total assets have been increasing and may well do so in the future. On the other hand, there is not the basis of regular increase that there is with the life companies, where premium incomes based on long contractual commitments represent a certain increase in assets.

The trust companies hold a similar proportion of total assets in mortgage form, about 26 per cent at the end of 1952. It may well be that a more liquid or transferable mortgage instrument as now proposed will induce the trust companies to hold somewhat larger mortgage portfolios, not only on their own account but also in respect to funds under administration. Mr. Chairman, I have with me tables 8 (See Appendix "K") and 9 (See Appendix "L") showing assets and liabilities of a group of the larger loan and trust companies.

At a time of ever-growing need for new housing and physical capacity to implement it, I believe that one of the objectives must be an ample supply of mortgage funds under the National Housing Act for home owners, merchant builders and owners of rental property. Bill 102 is directed to this end by widening of the base of mortgage lenders and by creating a mortgage instrument of greater liquidity and transferability.

It is difficult to judge just how much more financing under the National Housing Act will be available as a result of the proposed changes. It depends upon the degree of continued participation by the life, loan and trust companies, as well as the future investment by the chartered banks and the Quebec savings banks in insured mortgage loans. Under the new arrangements, the one-quarter share of participation in joint loans by Central Mortgage will no longer be available. Therefore, with like amount of mortgage investment, lenders under the National Housing Act will finance fewer units. On the other hand, the new group of approved lenders is large enough to make good this deficiency, as well as to increase the total number of units financed. The object of the change is to increase the number of units being financed under the National Housing Act.

GENERAL REVIEW OF CHANGES PROPOSED IN BILL 102

I now come to the third subject—a general review of the changes proposed in Bill 102. In his speech upon the second reading, the Minister of Public Works outlined the changes in some detail. As far as possible I will try to avoid repetition.

The bill might be divided into three parts. There is a re-enactment of the definitions with a few changes. There is the portion of the bill which is entirely new and deals with the introduction of insured mortgages to replace joint loans, and then there is the balance of the bill which is, other than the joint loan provisions, a re-enactment of the present Act with certain modifications which for the most part are minor in character.

In the definition portion of the bill there are two changes which might be mentioned at this time.

For the purposes of the limited dividend section of the Act, a definition of a family of low income is required. From an operating point of view the definition contained in the present Act is unsatisfactory. It presently reads:

"family of low income" means a family that receives a total family income less than five times the economic rental of a family housing unit required to provide sufficient accommodation for the said family.

The complementary definition reads:

“economic rental of a family housing unit” means an annual rental at the rate of twelve per cent of the cost of construction of the family housing unit.

The net effect of these definitions is that a family of low income means a family whose income is not greater than 60 per cent of the capital cost of the house to be occupied.

It would seem that the new definition which reads:

“family of low income” means a family that receives a total family income that, in the opinion of the corporation, is insufficient to permit it to rent housing accommodation adequate for its needs at the current rental market in the area in which the family lives.

more closely meets the need.

In the present Act lending value is defined:

“lending value” means the estimated cost of construction or cost of conversion, or the appraised value, whichever is less, of a house or housing project.

In Bill 102 lending value is defined:

“lending value” means the value for lending purposes of the house or housing project determined by the corporation.

The implication of the change is that whereas under present arrangements lending value is the lesser of the appraised values by the corporation and by the lending institution, under the new arrangement it will be a value determined solely by the corporation. There is much to be said for a continuation of the present arrangement, but the new group of prospective approved lenders are in no position at this time to determine lending values. The day may come when such will not be the case, in which event reversion to the present arrangement might be considered. However, until that time it seems desirable that there be a determination of lending values common to all approved lenders.

Definitions relating to institutional holding companies have been dropped in the bill. It will be recalled that these definitions were included to permit the formation of Housing Enterprises Limited, a company mutually owned by all the life insurance companies operating in Canada. Housing Enterprises has been wound up, its assets have been taken over by Central Mortgage, there is no prospect of another company of this kind, and Bill 102 drops the definition as well as the operative sections relating to institutional holding companies and institutional housing corporations.

I will now deal with the sections of the bill which establish a system of insured loans. The principles have been enunciated by the minister in his speech on second reading and my remarks will be supplementary.

Under the “Authority to Lend” it will be noticed that in addition to the power granted to the approved lenders to make insurable loans they are also granted power to buy, sell or pledge insured loans with the corporation or other approved lenders. In addition, they are authorized to administer a loan where a holder may or may not be an approved lender as well as to act as an agent for Central Mortgage in making or administering loans that the corporation is authorized to make.

The minister has already dealt in some detail with a maximum rate of interest payable by the borrower in respect to an insured loan. I can only add that the bill provides for a maximum rate of interest and contains nothing to prevent an approved lender from making insured loans at a rate less than maximum. I would hope that this might be a development in the operations of the insured loan arrangements.

The bill also makes clear that the liabilities of the corporation under this Act are the liabilities of Her Majesty. Because Central Mortgage is an agent of Her Majesty, this is already the case, but it was felt desirable that the bill should make it unnecessary for an approved lender or a holder of an insured mortgage to determine such condition by reference to various sections of this Act and the Central Mortgage and Housing Corporation Act.

The bill then deals with the powers of the corporation to issue an insurance policy and to give an undertaking to insure. The bill provides that progress advances can be insured even before the loan has been fully paid out. Further provision is made that if a loan has been approved within the limits and in the manner authorised by the statute and the loan cannot be fully advanced, then that portion of the loan which has been advanced shall be subject to insurance.

The bill provides a level of insurance fee which shall be payable by the borrower. In the case of home ownership, the basic fee is $1\frac{3}{4}$ per cent and in the case of rental property $2\frac{1}{4}$ per cent. To this basic fee is added another one-quarter of 1 per cent of the amount of the loan to provide for the insurance of the instalments or progress advances. If a borrower is financing a home by a completion loan then the premium is $1\frac{3}{4}$ per cent. If the home owner wants progress advances, the premium is 2 per cent. These premiums are not payable in cash by the borrower but are capitalised into the mortgage by adding them to the amount of the approved mortgage. For instance, if a mortgage is approved for \$10,000, subject to the insurance of instalments, then the mortgage signed by the borrower is for an amount of \$10,200.

The bill provides for a premium of 2 per cent in the case of a home ownership loan with progress advances. In the rental field the premium is $2\frac{1}{2}$ per cent. If the lender does not want the corporation to insure the progress advances, then in remitting the premium to the corporation he may retain a one-quarter of 1 per cent. The committee might like an explanation of this provision.

Under the new arrangements, as already mentioned by the minister in the House, all compliance inspections will be made by Central Mortgage. Further, where progress advances are being insured we will inform the approved lender of the maximum amount of each progress advance that can be made and will be insured. In other words, when our compliance inspections are taking place, from our estimate of the amount of construction required to complete the house, we will indicate to the approved lender an appropriate advance at that time which we are prepared to insure. This is a procedure required by the banks in their operations under the new legislation.

On the other hand, the lending institutions now operating under the present Act have a field staff which has been determining the amount of progress advances. At a time when additional staff is required by Central Mortgage, it does not seem advisable to dispense with the field staff already employed by the lending institutions. Therefore, the bill contemplates a continued use of this field staff of the lending institutions to determine the amount of their progress advances. Central Mortgage will not be on the insurance risk until the house is completed subject to the compliance inspections to be made by Central Mortgage. The lending institution adopting this alternative will be on the risk for progress advances until the house is completed, and therefore is entitled to, and will retain the portion of the premium for the risk not being carried by Central Mortgage.

This arrangement is very satisfactory to the present lending institutions. It suits Central Mortgage and will reduce the expansion which must take place in its field staff. The borrower's position is unchanged.

Under this arrangement the lending institution, which wishes to make and carry the risk of progress advances, will elect geographical areas where its facilities permit such procedure to take place. In order to avoid selection against the corporation in respect to the varying financial responsibilities of different builders in a single community, the corporation will not insure for one lending institution some advances in that community and not others. A lender may elect the alternate arrangement for all the territory covered by its branch office, or may elect to insure all progress advances in that territory.

The bill also makes provision that for the insurance to continue in force, the insured loan must continue to be administered by an approved lender. The bill contemplates a widening of the ownership of insured mortgage loans beyond approved lenders. For administrative purposes it is necessary that we look to an approved lender for the fulfilment of the requirements contained in the Act, the regulations and the mortgage deed.

The bill then goes on to deal with the ratio of loan to lending value in respect to the various kinds of loan which can be made. As already mentioned in the House by the minister, the maximum basis for home owners is 90 per cent of the first \$8,000 and 70 per cent of the lending value in excess of \$8,000. The maximum basis for rental property is 80 per cent of the lending value. I might point out that this deals with the upper limit of loan in relation to the lending value established by the corporation. Later on in the bill there is provision that the Governor-in-Council may, by regulation, determine the maximum loan which may be made in respect of a house or a housing project. Members of the committee will recall that in the case of home ownership, the present maximum loan is \$10,000. In his remarks on the second reading the minister stated that an upward revision in the present maximum might be expected.

The bill requires in the case of a home owner that the amortization shall be for at least twenty-five years and not more than thirty years, unless the borrower requests a shorter amortization or a shorter amortization is required by regulation. In the case of rental housing the amortization term shall not be in excess of twenty-five years.

The bill then goes on to adapt the home ownership provisions of insured mortgages to cooperative housing associations. The general principle is that cooperative groups can secure financing on the same basis as home owners. Provision is also made that where the period of cooperation is limited to the building of the houses, each house of the project may be released from the blanket mortgage on the project as a whole, and be financed as an individual insured mortgage as if the owner had made an individual application in the original instance.

The bill then deals with the insurance settlement, which the minister has already covered in some detail. The insurance settlement takes the form of Central Mortgage buying the foreclosed mortgaged premises from an insured lender at a figure slightly less than the book value of the mortgage account. It is proposed that the amount Central Mortgage pays for the foreclosed property shall be less than the mortgage account of the lender by the sum of:

- (a) 2 per cent of the principal amount outstanding and the interest adjustment as a result of this discount.
- (b) The adjustment caused by interest running at a rate 2 per cent less than the mortgage rate during the period of interest accumulation from six to eighteen months.
- (c) All interest arrears in excess of eighteen months.
- (d) The amount by which the average foreclosure fee exceeds \$125.

Later in my remarks I will be dealing with an example of settlement as provided by the bill.

The bill goes on to establish a mortgage insurance reserve fund upon the books of the corporation. Premiums shall be deposited in this fund and may be invested in securities which are the obligation of or guaranteed by the government of Canada. All payments which must be made to holders of insured mortgages under insurance policies shall be made out of the fund. Foreclosed properties purchased from holders of insured mortgages will become an asset of the fund. Should the fund have insufficient monies to meet its obligations, then at the request of the Corporation the Minister may advance monies for such purpose upon such terms and conditions as may be approved by the Governor-in-Council.

The bill then gives the corporation power to purchase and sell insured loans as well as to make loans to approved lenders upon the security of insured loans. This power is limited in amount to the capital and reserve fund of the corporation, which is \$30 million and additional moneys which may be made available for this purpose. Later in the bill \$25 million is so appropriated. Provision is also made that when properties acquired by Central Mortgage in settlement of a claim are sold, then the first mortgage representing the unpaid balance of purchase price may be sold and such first mortgage shall be deemed to be an insured loan, provided that the mortgage insurance fund is credited with an appropriate premium.

The bill then provides that the Governor-in-Council may make regulations and gives the corporation power to act in respect to standards of construction, advance procedures and forms to be used in administration.

This portion of the bill relating to insured mortgage loans concludes by providing that the aggregate amount of insurance shall not exceed \$2 billion.

Mr. Chairman, I realize that this has not been a complete review of the provisions for insured mortgage loans. However, there may be an opportunity for me during later meetings of this committee, when answering questions to provide any additional information required. I do think however, that what I have said, as a supplement to the speech of the minister on second reading, will give this committee an outline of the proposals.

As I mentioned earlier, the balance of the bill deals with the re-enactment of other provisions of the National Housing Act. I will now deal with them in the order in which they appear in the bill.

Rental Insurance

The bill contemplates the re-enactment of the present provisions save that the annual premiums presently authorized by regulation and being charged to the borrowers are contained in the new section. The premium rates are $1\frac{3}{4}$ per cent, 2 per cent and $2\frac{1}{4}$ per cent of the allowed rentals for rental guarantees of ten, twenty and thirty years.

Loans to Limited Dividend Housing Corporations

The bill proposes the re-enactment without change of the present provisions for loans to limited dividend companies. The change in the definition of a family of low income has application to this provision. Under the appropriate section in the National Housing Act the corporation is authorized to make loans to limited dividend companies up to 90 per cent of the lending value of the project to be amortized over a period not exceeding 50 years. It is a requirement of the legislation that the resulting housing units be rented to families of low income. There has been increasing interest shown in this section of the Act. Sponsorship comes from a variety of sources—charitable organizations and service clubs, municipalities and private investors. The amount of the rent is determined by agreement between Central Mortgage and the sponsors of the limited dividend company. These rents are calculated

on the basis of an amount required to service the mortgage debt, pay taxes and operating expenses, and a return on the sponsor's equity not exceeding 5 per cent. Rents range from \$20 per month to \$60 per month, depending on the type of sponsorship and the amount of grants made to the sponsors for the financing of the project, in addition to the loan from Central Mortgage. The present interest rate fixed by the Governor-in-Council for the loan is $3\frac{3}{4}$ per cent. In 1953, 19 loans were approved in amount of \$10,363,000 to finance 1530 housing units.

Loans to Primary Producers

This portion of the bill contemplates re-enactment without change. In 1946, by an amendment to the National Housing Act provision was made for loans to borrowers engaged in mining, lumbering, logging or fishing. The object of the amendment was to make available a loan to these primary producers for the provision of houses for their employees. The section departed somewhat from the usual provisions relating to house financing in that it permitted the financing of non-permanent houses and of houses that otherwise would not comply with minimum standards. Activity under this section has not been great. In 1953 only 2 loans were approved for 13 housing units.

Life Insurance Company Investment in Housing and Land Assembly

Subject to the deletion of the provisions under which Housing Enterprises was established and the adjustments in interest earnings and guarantee referred to by the minister, the bill contemplates the re-enactment of the authority to life insurance companies to invest in the ownership of rental housing and to invest in land to be developed for residential use. While a number of land assembly projects have been undertaken by life insurance companies under these provisions, no rental housing project has yet been developed.

Housing Redevelopment and Slum Clearance

It will be recalled that when this committee last considered housing matters, a recommendation for change was made in respect to the slum clearance provisions of the Act. The bill contemplates the re-enactment of the resulting legislation without change. As members of the committee are no doubt aware, the section has been used in connection with the Regent Park housing redevelopment scheme undertaken by the city of Toronto. The legislation makes provision for a grant from the federal government to look after one-half of the excess costs of acquiring a slum area and clearing it. The remainder of the excess costs must be borne by the municipality on its own account or by the provincial government. While Regent Park has been the only project undertaken, recent inquiries indicate some early activity under the provisions of this section.

Home Improvement Loans and Home Extension Loans

The only change in these provisions is the introduction of the insurance principle by establishing a premium of 1 per cent.

Housing Research and Community Planning

Besides the re-enactment of the present legislation, the bill proposes a change to clarify the position in respect to experimental houses constructed by the corporation. Presently funds are available for experimental houses. For instance, some have been built at Ajax on land owned by the corporation. These houses are occupied by tenants, not only for rental income, but also to determine the manner in which the experimental features of the houses work out for a family actually living in the house. Under the present legislation, with the houses having been built by funds available under Part V, it is not at all clear who owns the houses. Conveyance, if necessary,

is therefore a problem. It is proposed that although the funds come from part V grant, the resulting houses shall be owned by Central Mortgage. In our accounting with the minister for funds under Part V, we would credit him with net rentals and proceeds of sale of experimental houses with suitable adjustment for land which might be owned by the corporation. The purpose of this change is to regularise the situation, and does not have the effect of Part V funds being used to create income and assets for the Corporation.

Federal-Provincial Projects

The bill contemplates the re-enactment of the federal-provincial housing arrangements without substantial change. On occasion the province and Central Mortgage proceed with the early stages of a project in a municipality then due to unforeseen circumstances it is either impossible or inadvisable to proceed with the project. Bill 102 provides that the expenses so incurred may be considered as losses for the purposes of the section.

HYPOTHETICAL EXAMPLE OF LOAN PROCESSING AND LOSS SETTLEMENT

Mr. Chairman I will now come to the fourth and final part of my remarks. It might be helpful if I outlined to the committee my understanding of the manner in which a home owner application would be processed under the provisions contemplated by bill 102. As the members of the committee will no doubt have observed, a number of circumstances are specifically left to be dealt with by regulations of the Governor in Council. As such regulations have not, and indeed cannot be passed until the bill is enacted, I will base the outline on the present regulations that apply to the joint lending arrangement where they are applicable to the new arrangement, and on a guess as to the additional regulations that may be required and passed by the Governor in Council when the bill becomes law. I will start with the application and follow the case through to foreclosure and conclude with the loss settlement with the approved lender.

As his first step the applicant gets in touch with an approved lender. He brings with him three copies of the proposed plans and specifications. At this time the applicant is likely to indicate to the approved lender the amount of mortgage loan required by him or request the lender for the maximum amount allowed under the Act. If the approved lender is one of the present lending institutions, then it would be able to make a rough approximation of the value of the house and land and indicate to the applicant the level of loan in which it was interested. However, if the lender is a branch bank without facilities to make such appraisal, the bank submits the plans and specifications with details of the land to the nearest branch office of Central Mortgage, who inspect the site, appraise the plans and establish a lending value upon which the loan is based.

After the lender has established a preliminary lending value on its own initiative, or by prior submission to Central Mortgage, the lender will then investigate the financial circumstances of the applicant and determine a maximum amount of loan that the applicant can afford to carry. Unless unusual circumstances exist, this assessment of ability to finance a house is based on the current income of the applicant. In assessing such income, the lender is free to include, if he so wishes, any investment income of the applicant's wife and 20 per cent of the wife's salary, if she is gainfully employed. With the maximum loan which the applicant is able to carry having been established, a formal application is taken from the applicant for the maximum amount of loan in relation to lending value, or for a lesser amount if the applicant does not require a maximum or limit loan. At this stage an application fee of say \$35 is collected from the applicant.

The signed application and the application fee are then sent by the lender to the nearest branch office of Central Mortgage. The corporation then examines the application. If a preliminary appraisal has already been given to the lender, the lending value has already been established. If however, the lender, as perhaps in the case of the present lending institutions, has established its own appraisal, the Central Mortgage will establish a lending value upon which the loan will be based. However, under either of these circumstances, the corporation then decides whether it is prepared to insure the loan and for how much. If so, a formal advice known as a "commitment to insure" is sent to the lender. However, if requested, the Corporation will tell the applicant the maximum amount of loan which it is willing to insure.

The lender then advises the applicant of the terms of the loan it is prepared to make. If the application is not approved as applied for, the applicant is free to withdraw the application and recover the application fee already paid. If the loan is to proceed, the lender at this time will tell the applicant the name of the lender's solicitor who will be drawing the mortgage and ask the applicant to send the title deeds to him. The lender instructs its solicitor to prepare and register a mortgage deed, which in the case of home owner loans is for a term of twenty-five years, unless the applicant specifically requests a lesser term or unless, under regulations, a lesser term is prescribed by the Governor in Council. The lender tells Central Mortgage that a loan has been committed and that construction is about to commence. The applicant either selects his contractor or tells a contractor already selected to commence construction.

There are three matters applicable at this stage which are often misunderstood by prospective home owners and indeed by builders:

- (1) Construction must not commence beyond the bare excavation stage prior to receipt by the applicant of a formal approval letter from the lender.
- (2) Construction must commence within ninety days of approval and proceed with reasonable and continued expedition.
- (3) The arrangements with the contractor and the fulfilment of the contract are the sole responsibility of the applicant and not that of the lender or Central Mortgage.

On advice from the lender that the loan has been approved, Central Mortgage arranges to inspect the house at various intervals during the course of construction. There will be not less than four compliance inspections and it is thought that they may average six or seven. During the construction period Central Mortgage advises the lender of amounts which may be advanced on the loan and will be insured. The timing of advances will be adjusted to suit the requirements of the borrower, builder and lender. There is a wide difference in requirements for progress advances. For that reason there will be flexibility rather than a rule of general application. Probably the most practical method is for the builder to notify Central Mortgage of the times at which he would like inspections to initiate progress advances.

At this point perhaps I should repeat that the Bill provides an option under which the lender may determine its own scale of advances, provided not less than four are available to the applicant. Under this procedure the advances made by the lender are not insured against loss but the loan when fully advanced is insured.

If, during construction, an inspector of the corporation finds compliance infractions by way of departures from approved plans or minimum standards, Central Mortgage advises the builder and the lender that such deficiencies must be remedied. If the non-compliance is of a serious nature the corporation might advise the lender to withhold further advances pending the correction of

the construction defects. If items of non-compliance cannot be corrected then the corporation might require that the loan be closed out at a reduced amount.

Assuming that construction is progressing satisfactorily, on receipt of advices from the corporation on the progress of construction, the lender advises its solicitor of the amounts to be advanced from time to time. As each advance is made an appropriate portion of the insurance fee will also be advanced and remitted to the corporation. When the loan is fully advanced the lender requests and receives from the corporation a mortgage insurance policy covering the loan on the property.

When the house is completed the lender will advise the home owner of the date on which repayments of the mortgage commence. The first payment, consisting of interest on advances only, will generally be made within two months of completion or occupancy. Commencing in the month next following, regular payments of principal, interest and taxes will be made and these payments will continue for the life of the loan. When final payment has been made, say at the end of 300 months, the lender will give the borrower a mortgage discharge which, when registered, will remove the mortgage from the title to the property.

In this example, let us assume that the original borrower makes mortgage payments satisfactorily and then sells his house. The new buyer fails to make principal repayments and the tax payments, and just pays the interest on the mortgage account. The lender does everything to have the purchaser conform to the terms of the mortgage by making principal and tax payments and curing past default. Let us assume that the new debtor does not remedy default and the lender advises him of intention to institute foreclosure proceedings. The debtor may elect to abandon the property and give the lender a quit claim deed with or without cash consideration. This would save both himself and the lender the difficulties of foreclosure proceedings. If however, the borrower is unwilling, or because of other claims filed against the property, is unable to give a quit claim, then the lender takes recourse to the courts in a foreclosure action. In this case, let us assume that such course was necessary. The lender files proof of default and files a claim in amount of its total mortgage account and requests that the foreclosure action proceed. Necessary service on the debtor and other legal procedures then take place. There is wide variation in the laws of the ten provinces and I will not attempt to cover the different procedures at this time. Generally, however, the court hears the representations of both parties and failing payment it is likely that judgment will be rendered against the defaulting home owner or a public sale of the property ordered. In such proceedings the defaulting home owner is given every opportunity to correct the default.

Let us assume that he does not do so and the approved lender becomes the owner of the property through a foreclosure action. At this time the mortgage debt on the books of the lender is \$11,365.38, being the accumulation of principal outstanding, borrower's charges and interest arrears at 5 per cent. I use the hypothetical rate of 5 per cent because in the second reading speech the minister indicated that such was not likely to be the maximum interest rate determined by the Governor-in-Council. The details of the \$11,365.38 owing follow:

1956		Principal	Borrowers	Interest	Total
			Charges		
Jan. 1	Amounts owing at default	\$9,900	\$750 (Taxes)	nil	\$10,650.00
July 1	Interest Charges (Assume 5%)			\$266.25	10,916.25
Nov. 1	Foreclosure Completed—				
	Interest Accrued			183.93	11,100.18
Nov. 1	Solicitors Fees		220.00		
Nov. 1	Solicitors Disbursements		45.20		11,365.38

At this point the lender must decide, within thirty days, as to whether it wishes to retain the foreclosed property and make no claim upon Central Mortgage, or alternatively to claim under the insurance policy by transferring the property to the corporation. Let us assume that the lender decides upon this latter course.

Within thirty days of receipt of claim from the approved lender, the corporation examines the title papers submitted and decides as to their acceptability. If there are defects in title the approved lender is given reasonable time to remedy such defects. The corporation also makes an inspection of the property to ensure that it is in good physical condition within the meaning and intent of regulations to be prescribed by the Governor-in-Council. Should there be any difference of opinion between the lender and the corporation on this point, the regulations will probably provide for arbitration of the issue. Let us assume that the title is satisfactory, the property is in good physical condition and the corporation receives a deed to the property on November 25th, 1956. The corporation computes the loss settlement in accordance with Section 9 (1) of the bill and issues its cheque to the approved lender. Assuming that the cheque is issued on December 1st, 1956, the settlement would be \$11,020.41. The details of this settlement follow. Reference is made to the various subsections of section 9, in which the various amounts payable to the lender are authorized.

Nov. 1	Total Debt at Completion of Foreclosure		\$11,365.38
Dec. 1	Accrued Interest to Settlement with CMHC	\$46.71	<u>11,412.09</u>

Settlement Details

(a)	Sec. 9(1) (a)—Principal	\$ 9,900.00	
(b)	" 9(1) (b)—Taxes	750.00	
(c)	" 9(1) (c)—Interest	266.25	(6 mos. @ 5% on (a) and (b)).
(d)	" 9(1) (d)—Interest	137.28	(5 mos. @ 3% on (a), (b) and (c)).
(e)	" 9(1) (d)—Acquisition Fee	125.00	
	—Taxed Disbursements .	45.20	
		<u>\$11,223.73</u>	
Less:	2% of (a)	\$198.00	
	2% of (c)	5.32	203.32
		<u>\$11,020.41</u>	
	Loss to Lender	\$ 391.68	or 3.43% of its account

If the property is not in good physical condition, owing to negligence of the lender, the payment of \$11,020.41 is reduced by the amount required to repair defects.

When the monies are paid to the lender, the corporation registers its title. It proceeds to rent or sell the property according to the circumstances prevailing at that time. The lender has no further interest in the property, whether the corporation sells it at a profit or a loss.

My example has dealt with typical procedure in the case of a home owner application. There is some variation in the case of an application emanating from a builder who intends to build houses for sale to home purchasers. The preliminary procedure is the same, with an application fee of say \$35 being payable for each house in the project. The corporation will have the right, under what may well be the regulations, to stipulate that a maximum loan

under the Act is only available if the builder sells the house at a price not exceeding the maximum selling price established by the corporation, which generally is the lending value. The builder is not compelled to meet the established maximum selling price but if this price is exceeded, indicating an undue margin of profit, then the loan is reduced by an amount to be stipulated in the Regulations—perhaps 10 per cent.

Just as the lender approves as a satisfactory borrower, the home owner in the original instance, the lender also approves a home purchaser who buys a house from a merchant builder. An approved home purchaser would be a buyer who would have qualified for a loan had he applied for it in the first instance as a home owner applicant. There is an additional holdback on builders' loans until the property is satisfactorily completed and sold to an approved home purchaser, at which time the builder's covenant is released and replaced by the covenant of the home purchaser.

In general, the procedure will be the same in the case of loans on property for rental. The application will be accompanied by an application fee of say, \$35, for each individual rental housing unit in the project, whether the project is an apartment house or a group of single family dwellings. The procedure in processing a loan on rental property will be the same as that already outlined for a home owner loan except that in the case of multiple family dwellings exceeding ten or more housing units, the borrower must execute, in all provinces (except in Quebec where such is not possible) a chattel mortgage covering the stoves, refrigerators and other movable equipment forming part of the security for the loan.

The loss settlement which I have described in the home owner case is the same for all types of insured loans.

Mr. Chairman, this concludes my statement.

The CHAIRMAN: Gentlemen, we have had a full session. It is not contemplated that there should be any questioning this morning. You have the statement and you have an opportunity to examine it further at your leisure. You can question the witness at the next meeting.

I thought that we might adjourn now and hold an agenda committee meeting. We have some planning to do before the next meeting.

Mr. APPLEWHAITE: Mr. Chairman, would you please indicate the personnel of the agenda committee?

The CHAIRMAN: The agenda committee will comprise Messrs. Fleming, Macdonnell, Quelch, Noseworthy, McIlraith, Applewhaite, Tucker, Weaver, and Cannon.

TABLE "A"

SUMMARY OF FEDERAL-PROVINCIAL PROJECTS LAND ASSEMBLY

		Completed	Underway	Committed	Total
<i>Newfoundland—</i>					
Cornerbrook.....	F.P. 1/51	.....	201	.....	201
St. John's.....	F.P. 2/50	594	.....	.....	594
<i>Ontario—</i>					
Arnprior.....	F.P. 2/53	.....	43	.....	43
Atikokan.....	F.P. 1/53	178	962	.....	1,140
Cobourg.....	F.P. 1/53	.....	.....	1,015	1,015
Kingston.....	F.P. 1/50	.....	.....	615	615
Kitchener.....	F.P. 1/51	.....	1,000	.....	1,000
London.....	F.P. 1/50	350	.....	.....	350
London (Twp).....	F.P. 2/51	.....	.....	1,500	1,500
London.....	F.P. 3/52	.....	.....	475	475
Ottawa.....	F.P. 1/50	332	351	.....	683
Peterborough.....	F.P. 1/52	.....	500	1,670	2,170
Sarnia.....	F.P. 1/51	.....	491	860	1,351
St. Thomas.....	F.P. 1/50	100	106	.....	206
Toronto (Metropolitan).....	F.P. 2/53	.....	.....	8,000	8,000
<i>British Columbia—</i>					
Kimberley.....	F.P. 1/53	.....	.....	50	50
Trail.....	F.P. 1/50	153	111	.....	269
		1,712	3,765	14,185	19,662

COMBINED LAND ASSEMBLY AND RENTAL HOUSING

		Rental Units				Lots			
		Com- pleted	Under- way	Com- mitted	Total	Com- pleted	Under- way	Com- mitted	Total
Amherstburg.....	F.P. 1/52	.....	25	.....	25	.....	31	.....	31
Brockville.....	F.P. 1/51	.....	.....	40	40	.....	.....	385	385
Guelph.....	F.P. 1/51	70	.....	.....	70	.....	203	.....	203
Midland.....	F.P. 1/51	20	.....	.....	20	42	.....	.....	42
North Bay.....	F.P. 1/52	.....	.....	54	54	.....	.....	56	56
Owen Sound.....	F.P. 1/52	.....	40	.....	40	.....	52	.....	52
Renfrew.....	F.P. 1/53	.....	.....	30	30	.....	.....	46	46
Stamford Twp.....	F.P. 1/52	.....	70	.....	70	.....	57	.....	57
Stratford.....	F.P. 1/51	40	.....	.....	40	.....	122	.....	122
Trenton.....	F.P. 1/51	.....	.....	25	25	.....	.....	195	195
		130	135	149	414	42	465	682	1,189

RENTAL HOUSING

(Federal Provincial: Table 'A' Concluded)

		Completed	Underway	Total
<i>Newfoundland—</i>				
St. John's.....	F.P. 1/50	140	....	140
St. John's.....	F.P. 3/51	152	....	152
St. John's.....	F.P. 4/52	100	....	100
<i>Nova Scotia—</i>				
Halifax.....	F.P. 1/50	161	....	161
<i>New Brunswick—</i>				
Saint John.....	F.P. 1/50	88	....	88
Saint John.....	F.P. 2/52	....	200	200
<i>Ontario—</i>				
Arnprior.....	F.P. 1/53	....	25	25
Dunnville.....	F.P. 1/52	25	....	25
Fort Erie.....	F.P. 1/52	....	28	28
Fort William.....	F.P. 1/51	70	....	70
Fort William.....	F.P. 2/53	....	52	52
Galt.....	F.P. 1/52	....	50	50
Goderich.....	F.P. 1/52	25	....	25
Goderich.....	F.P. 2/53	....	26	26
Hamilton.....	F.P. 1/51	496	....	496
Lindsay.....	F.P. 1/51	20	....	20
Port Arthur.....	F.P. 1/52	....	40	40
Prescott.....	F.P. 1/51	10	....	10
St. Thomas.....	F.P. 2/51	40	....	40
Sault Ste. Marie.....	F.P. 1/52	....	100	100
Smiths Falls.....	F.P. 1/52	....	24	24
Windsor.....	F.P. 2/51	325	....	325
<i>Saskatchewan—</i>				
Moose Jaw.....	F.P. 1/52	....	75	75
Prince Albert.....	F.P. 1/53	....	30	30
<i>British Columbia—</i>				
Prince Rupert.....	F.P. 1/51	50	....	50
Vancouver.....	F.P. 1/50	....	224	224
		1,702	874	2,576

SUMMARY OF COMMITMENTS

(as of Jan. 25th, 1954)

	Completed	Underway	Committed	Total
Land Assembly.....	1,754	4,230	14,687	20,851
Rental Housing.....	1,832	1,009	149	2,990

Negotiations have taken place with the intent of establishing additional projects in the following centres:

	Municipality	Purpose
<i>Alberta</i>	Edmonton.....	Land Assembly
<i>Newfoundland</i>	St. John's.....	Rental Housing
<i>Ontario</i>	Barrie.....	Land Assembly and Rental Housing
	Brantford.....	Land Assembly
	Cornwall.....	Land Assembly
	Hamilton.....	Land Assembly and Rental Housing
	Kenora.....	Land Assembly and Rental Housing
	Lindsay.....	Land Assembly
	Midland.....	Rental Housing
	Napanee.....	Rental Housing
	Orillia.....	Land Assembly and Rental Housing
	Port Hope.....	Land Assembly and Rental Housing
	Preston.....	Rental Housing
	St. Thomas.....	Land Assembly
	Toronto.....	Rental Housing
	Welland.....	Land Assembly
	Windsor.....	Rental Housing

Saskatchewan..... Moose Jaw..... Land Assembly

TABLE "B"

NET LOANS APPROVED, 1953*

The National Housing Act

Type of Loan	Number of Loans	Number of Housing Units	Amount (\$'000)
<i>Joint Loans—</i>			
Owner-Occupancy.....	5,219	5,302	42,840
Builders'.....	18,065	17,712	149,088
Rental.....	593	7,996	45,722
Sub-Total.....	23,877	31,010	237,650
<i>Corporation Loans—</i>			
Owner-Occupancy.....	1,383	1,409	9,660
Builders'.....	159	159	1,377
Defence Workers.....	880	880	7,376
Co-operatives.....	91	148	1,007
Rental.....	4	8	50
Rental Insurance.....	47	3,115	20,748
Rural Housing.....	7	7	44
Sub-Total.....	2,571	5,726	29,225
<i>Corporation Loans (Agency)—</i>			
Owner-Occupancy.....	551	552	4,187
Builders'.....	345	345	2,698
Rental.....	3	4	23
Sub-Total.....	899	901	6,908
<i>Corporation Loans (Other)—</i>			
Limited-Dividend.....	21	1,265	8,528
Primary Industry.....	2	13	68
Sub-Total.....	23	1,278	8,596
Grand Total.....	27,360	38,915	282,379

* December figures are preliminary.

CHART A

SOURCES OF THE NEW CANADIAN HOUSING DOLLAR

1953

OWNERS					PRIVATE MORTGAGE LENDERS						GOVERNMENT			
FULL OWNER FINANCING					OWNERS EQUITY		LIFE COMPANIES		T & L		OTHERS	JOINT LOANS	DIRECT MORTGAGES	DIRECT GOV'T HOUSING
From Sales of Real Estate	11¢	From Cash and Sales of Securities	11¢	Owner Labour and other	6¢	Subject to Mortgages from Lending Institutions	16¢	Subject to Mortgages other than from L. I.	15¢	N. H. A.	Conventional	N. H. A.	Conventional	
28¢					59¢				28¢				13¢	
EXPENDITURES ON HOUSING FACILITATED BY MORTGAGE LOANS														
LENDING INSTITUTIONS							OTHERS							
42¢							26¢							
SOURCES OF FUNDS FOR EXPENDITURES ON HOUSING FACILITATED BY L. I. MORTGAGES														
Lending Institutions			Owners' Equity			Gov't								
N. H. A.			Conventional			N. H. A.			Conventional					
14¢			7¢			10¢			6¢			5¢		
21¢			16¢			5¢								

TABLE I—EXPENDITURES ON NEW HOUSING BY SOURCE OF FUNDS,
BY YEAR, 1950-1952, AND FIRST NINE MONTHS, 1953.

Item No.	Item	1950		1951		1952		Jan.-Sept. 1953 (1)	
		\$ Mill.	%	\$ Mill.	%	\$ Mill.	%	\$ Mill.	%
	<i>Government—</i>								
1	Public Housing.....	51.3	6.0	43.1	5.2	52.9	6.3	28.3	3.7
	<i>N.H.A. Loans—</i>								
2	Joint Loans.....	66.6	7.8	65.3	8.0	40.8	4.9	37.3	4.8
3	Direct Loans.....	28.1	3.3	21.2	2.6	28.1	3.4	28.7	3.7
4	Other Direct Loans.....	13.1	1.5	9.9	1.2	7.4	0.9	5.1	0.7
5	Total.....	159.1	18.7	139.4	17.0	129.2	15.5	99.5	12.9
	<i>Lending Institutions—</i>								
	<i>N.H.A. Joint Loans—</i>								
6	Life Coys.....	157.1	18.5	131.5	16.0	113.8	13.6	108.5	14.0
7	Trust & Loan Coys.....	11.0	1.3	5.4	0.7	4.3	0.5	3.0	0.4
8	Other Coys.....	1.2	0.1	0.8	0.1	0.1			
9	Total.....	169.3	19.9	137.7	16.8	118.3	14.1	111.5	14.4
	<i>Conventional Loans—</i>								
10	Life Coys.....	6.8	0.8	48.5	5.9	38.0	4.6	34.9	4.5
11	Trust & Loan Coys.....	12.4	1.4	11.6	1.4	19.7	2.4	16.3	2.2
12	Other Coys.....	1.6	0.2	1.4	0.2	1.5	0.2	0.9	0.1
13	Total.....	20.9	2.4	61.5	7.5	59.2	7.1	52.2	6.8
14	All Lending Institution Loans.....	190.2	22.3	199.2	24.3	177.5	21.3	163.7	21.2
15	Other Lenders.....	70.7	8.3	42.3	5.1	58.0	7.0	55.5	7.1
	<i>Owners Funds—</i>								
16	Fully Owner Financed.....	179.9	21.1	198.3	24.2	217.4	26.0	214.7	27.8
	<i>Owners Equity in addition to:—</i>								
17	N.H.A. Joint Loans.....	88.5	10.4	92.0	11.2	74.9	9.0	80.0	10.4
18	N.H.A. Direct Loans.....	5.4	0.6	5.8	0.7	8.1	1.0	8.1	1.0
19	Other Direct Loans.....	0.6	0.1	0.5	0.1	0.4		0.3	
20	Lending Institution Conventional Loans.....	18.4	2.2	60.3	7.4	55.1	6.6	42.9	5.6
21	Loans from other lenders.....	139.3	16.3	82.3	10.0	113.6	13.6	108.2	14.0
22	Total.....	252.2	29.6	240.9	29.4	251.6	30.2	239.5	31.0
23	All Owners Funds.....	432.1	50.7	439.2	53.6	469.0	56.2	454.2	58.8
24	Grand Total.....	852.3	100.0	820.1	100.0	833.7	100.0	772.8	100.0

Source; Data are estimated by Economic Research Department, C.M.H.C. For details see *Mortgage Lending in Canada, 1952*, C.M.H.C., pp. 102-3. Totals for some groups of items do not agree with the totals shown due to rounding.

(1) Preliminary.

APPENDIX "E"

TABLE 2.—GOVERNMENT FUNDS USED FOR NEW HOUSING BY YEAR 1950-1952
AND FIRST NINE MONTHS, 1953

Item No.	Item	1950		1951		1952		Jan.-Sept. 1953 ⁽¹⁾	
		\$ Mill.	%	\$ Mill.	%	\$ Mill.	%	\$ Mill.	%
1	<i>Direct Expenditures—</i>								
	Married Quarters for the Armed Services.....	31.5	3.7	35.2	4.3	35.2	4.2	16.6	2.1
2	Veterans' Rental Housing.....	17.3	2.0	5.1	0.6	5.0	0.6	2.0	0.3
3	Federal-Provincial Housing.....	0.5	0.1	1.1	0.1	9.4	1.1	7.8	1.0
4	Other Public Housing.....	2.0	0.2	1.7	0.2	3.3	0.4	1.8	0.2
5	Total Direct Expenditures.....	51.3	6.0	43.1	5.2	52.9	6.3	28.3	3.7
	<i>Direct Loans—</i>								
	N.H.A. Loans—								
6	For Home Ownership.....	2.8	0.3	4.0	0.5	13.2	1.6	12.7	1.6
7	For Rental Purposes.....	24.5	2.9	16.4	2.0	13.1	1.6	13.0	1.7
8	Limited Dividend Housing.....	0.8	0.1	0.7	0.1	1.7	0.2	3.1	0.4
9	Housing for Primary Industries..	(2)	—	(2)	—	(2)	—	—	—
10	Sub-total.....	28.1	3.3	21.2	2.6	28.1	3.4	28.7	3.7
	<i>Other Government Loans—</i>								
11	Canadian Farm Loans Act.....	0.1	—	0.1	—	0.1	—	0.1	—
12	Veterans' Land Act.....	10.8	1.3	9.7	1.2	7.3	0.9	5.0	0.7
13	Provincial Government Second Mortgages.....	2.2	0.2	—	—	—	—	—	—
14	Sub-total.....	13.1	1.5	9.8	1.2	7.4	0.9	5.1	0.7
15	Total Direct Loans.....	41.2	4.8	31.0	3.8	35.5	4.3	33.8	4.4
	<i>Joint Loans—</i>								
16	For Home Ownership.....	63.3	7.4	55.7	6.8	34.3	4.1	29.8	3.9
17	For Rental Purposes.....	3.3	0.4	9.6	1.2	6.5	0.8	7.5	1.0
18	Total Joint Loans.....	66.6	7.8	65.3	8.0	40.8	4.9	37.3	4.8
19	Total Government Funds Advanced.....	159.1	18.7	139.4	17.0	129.2	15.5	99.4	12.9
20	Total Expenditures from All Sources on New Housing.....	852.3	100.0	820.1	100.0	833.7	100.0	772.8	100.0

SOURCE: Data are from the records of C.M.H.C.; totals of some groups of items may differ from the totals shown due to rounding.

(1) Preliminary.

(2) Amounts less than \$100,000.

APPENDIX "F"

TABLE 3.—GROSS MORTGAGE LOAN APPROVALS⁽¹⁾ BY LENDING INSTITUTIONS AND BY TYPE OF LOAN, BY YEAR, 1947-1953

Type of Loan and Lending Institution	1947	1948	1949	1950	1951	1952	1953 ⁽²⁾	Total 1947-1953
<i>All Mortgage Loans—</i>								
Amount (\$ millions)								
Life Insurance Companies.....	180.2	242.0	272.4	370.9	315.9	367.7	434.6	2,183.7
Loan Companies.....	51.3	58.4	79.5	106.4	73.7	92.9	103.8	566.0
Trust Companies.....	20.7	29.4	30.7	36.3	35.5	31.7	42.2	226.5
Other Companies.....	5.9	13.5	10.9	7.1	8.9	3.8	5.8	55.7
All Lending Institutions.....	258.1	343.3	393.4	520.6	433.9	496.2	586.4	3,032.0
<i>Proportion of All Lending Institutions (per cent)</i>								
Life Insurance Companies.....	69.8	70.5	69.2	71.2	72.8	74.1	74.1	72.0
Loan Companies.....	19.9	17.0	20.2	20.4	17.0	18.7	17.7	18.7
Trust Companies.....	8.0	8.6	7.8	7.0	8.2	6.4	7.2	7.5
Other Companies.....	2.3	3.9	2.8	1.4	2.0	0.8	1.0	1.8
<i>Loans on New Residential Construction—</i>								
Amount (\$ millions)								
Life Insurance Companies.....	88.1	139.9	173.2	269.9	210.1	263.4	318.1	1,462.6
Loan Companies.....	12.4	15.4	22.8	28.3	17.6	28.6	38.2	163.3
Trust Companies.....	3.7	8.3	9.7	8.2	7.4	7.0	9.6	54.0
Other Companies.....	1.9	4.9	6.5	4.3	3.5	1.6	2.4	25.2
All Lending Institutions.....	106.1	168.5	212.2	310.8	238.6	300.6	368.3	1,705.1
<i>Proportion of All Lending Institutions (per cent)</i>								
Life Insurance Companies.....	83.0	83.0	81.6	86.8	88.0	87.6	86.3	85.8
Loan Companies.....	11.7	9.2	10.8	9.1	7.4	9.5	10.4	9.6
Trust Companies.....	3.5	4.9	4.6	2.7	3.1	2.3	2.6	3.2
Other Companies.....	1.8	2.9	3.0	1.4	1.5	0.6	0.7	1.5

Source: Based on a monthly survey of a group of lending institutions, which, in 1951, made 94 per cent of all mortgage loans made by lending institutions.

⁽¹⁾ Includes C.M.H.C. share of joint loan approvals.⁽²⁾ Preliminary.

TABLE 4.—MORTGAGE LOANS ON REAL ESTATE OUTSTANDING⁽¹⁾ AND TOTAL ADMITTED ASSETS⁽²⁾
BY TYPE OF LENDING INSTITUTION, 1939 AND 1945-1952.

Item by Type of Company	As at End of Year									
	1939	1945	1946	1947	1948	1949	1950	1951	1952	
<i>Canadian Life Insurance Companies—</i>										
Admitted Assets (\$ millions).....	1,541.0	2,082.0	2,213.0	2,358.5	2,537.7	2,753.1	2,937.8	3,147.0	3,372.8	
Mortgage Loans Outstanding (\$ millions).....	328.6	272.1	304.8	376.5	490.0	612.2	746.5	887.0	1,003.2	
Mortgage Loans/Admitted Assets (%).....	21.3	13.1	13.8	16.0	19.7	22.2	25.4	28.2	29.7	
<i>All Life Insurance Companies Operating in Canada—</i>										
Admitted Assets (\$ millions).....	2,075.0	2,841.3	3,027.4	3,221.5	3,441.3	3,730.0	3,977.0	4,228.4	4,528.8	
Mortgage Loans Outstanding (\$ millions).....	400.5	338.1	372.0	455.8	591.1	728.6	901.3	1,077.0	1,220.7	
Mortgage Loans/Admitted Assets (%).....	19.3	11.9	12.3	14.1	17.2	19.5	22.7	25.5	27.0	
<i>Loan Companies—</i>										
Admitted Assets (\$ millions).....	258.9	283.7	300.6	340.0	351.0	377.4	394.9	408.1	436.8	
Mortgage Loans Outstanding (\$ millions).....	170.9	136.4	151.5	173.1	192.6	234.2	260.9	285.2	309.5	
Mortgage Loans/Admitted Assets (%).....	66.0	48.1	50.4	50.8	54.9	62.1	66.1	69.9	70.9	
<i>Trust Companies—</i>										
Admitted Assets (\$ millions).....	231.4	274.1	304.7	321.2	355.6	405.4	455.4	462.5	461.8	
Mortgage Loans Outstanding (\$ millions).....	89.4	67.1	69.9	77.1	86.0	97.7	110.3	127.7	136.4	
Mortgage Loans/Admitted Assets (%).....	38.6	24.5	23.0	24.0	24.2	24.1	24.2	27.6	29.5	
<i>Other Companies—</i>										
Admitted Assets (\$ millions).....	152.6	165.8	168.1	177.3	185.6	213.6	231.0	239.8	260.3	
Mortgage Loans Outstanding (\$ millions).....	18.9	16.8	18.3	22.6	21.2	25.2	28.4	30.6	31.1	
Mortgage Loans/Admitted Assets (%).....	12.4	10.1	10.9	12.6	11.4	11.8	12.3	12.8	12.0	
<i>All Lending Institutions—</i>										
Admitted Assets (\$ millions).....	4,258.8	5,646.9	6,013.7	6,418.6	6,871.3	7,480.0	7,996.0	8,485.8	9,060.4	
Mortgage Loans Outstanding (\$ millions).....	1,008.3	830.5	916.4	1,105.1	1,389.0	1,698.0	2,047.4	2,407.7	2,701.1	
Mortgage Loans/Admitted Assets (%).....	23.7	14.7	15.2	17.3	23.2	22.7	25.6	28.4	29.8	

Source: Reports of the Superintendents of Insurance and Registrars of Trust and Loan Companies for the Federal and Provincial Governments together with information received directly from the Companies.

(1) The Government's share of joint loans is *not* included in this table.

(2) For all companies only those admitted assets held in Canada are shown under the heading "Admitted Assets".
"Mortgages" refer to Canadian Mortgages only.

TABLE 5.—ESTIMATES OF MORTGAGE INVESTMENTS BY LIFE INSURANCE COMPANIES, ATTRIBUTABLE TO INCREASES IN THE PROPORTION OF MORTGAGES TO TOTAL ASSETS, BY YEAR, 1948-1953

Group of Companies and Year	Mortgage Advances (\$ Millions)		
	Total	Amount Required to Keep Ratio of Mortgages to Assets Stable	Excess Over Amount Required to Keep Ratio of Mortgages to Assets Stable
<i>All Companies Operating in Canada—</i>			
1948.....	190	98	92
1949.....	213	131	80
1950.....	272	147	125
1951.....	278	161	117
1952.....	253	196	57
1953 ⁽¹⁾	300	220	80
<i>Canadian Companies—</i>			
1948.....	178	84	94
1949.....	181	110	71
1950.....	217	124	87
1951.....	227	139	86
1952.....	214	162	52
1953 ⁽¹⁾	251	182	69

SOURCE: Based on data in Table 4 and on information relating to mortgage repayments and disbursements published in issues of *Mortgage Lending in Canada* for the years 1949-1952.

⁽¹⁾ Preliminary.

APPENDIX "I"

TABLE 6.—NET SALES OF GOVERNMENT OF CANADA BONDS
BY LIFE INSURANCE COMPANIES
(\$ Millions)

Year	Canadian Companies Only	All Companies Operating in Canada
1945.....	-226.8	-296
1946.....	- 87.6	-107
1947.....	15.3	12
1948.....	135.4	169
1949.....	121.4	171
1950.....	101.4	185
1951.....	96.0 ⁽¹⁾	150
1952.....	50.0 ⁽¹⁾	70

SOURCE: Data for all Companies based on Table 6 of "Statistical Summary" of Bank of Canada, November 1953.

Data for Canadian Companies based on the Annual Reports of the Companies.

⁽¹⁾ Preliminary.

APPENDIX "J"

TABLE 7.—GOVERNMENT OF CANADA BONDS, AND
TOTAL ASSETS FOR TEN CANADIAN LIFE COMPANIES

Year	Government of Canada Bonds	Total Canadian Assets	Proportion of Total Assets Represented by Government of Canada Bonds
	(\$ Millions)	(\$ Millions)	(Per cent)
1946.....	1,111.2	1,951.5	56.9
1947.....	1,099.5	2,068.5	53.2
1948.....	975.5	2,168.9	44.6
1949.....	862.0	2,331.9	37.0
1950.....	765.1	2,496.0	30.7
1951.....	682.5	2,661.4	25.6
1952 ⁽¹⁾	632.5	2,856.8	22.1

SOURCE: Based on the annual reports of ten Canadian Life Insurance Companies whose assets represented 85 per cent of the assets of all Canadian Life Insurance Companies in 1951.

⁽¹⁾ Preliminary.

APPENDIX "K"

TABLE 8.—DISTRIBUTION OF TOTAL ASSETS AND LIABILITIES TO THE PUBLIC OF
SIX CANADIAN LOAN COMPANIES, 1946, 1950-1952.

Assets and Liabilities to the Public	1946		1950		1951		1952 (1)	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Assets—								
Mortgages(2).....	104,511	51.9	186,964	70.5	201,574	72.1	214,150	74.0
Federal Government (inc. gtd.) bonds.....	59,966	29.8	36,339	13.7	37,197	13.3	35,920	12.4
Provincial (inc. gtd.) bonds.....	5,995	3.0	5,450	2.1	4,129	1.5	4,067	1.4
Municipal bonds.....	1,911	0.9	2,345	0.9	1,886	0.7	2,876	1.0
Other bonds.....	2,979	1.5	543	0.2	492	0.2	1,955	0.7
Stocks, common and preferred.....	8,466	4.2	12,499	4.7	11,394	4.0	11,554	4.0
Collateral loans.....	226	0.0	2,613	1.0	309	0.1	297	0.1
Real Estate.....	7,208	3.6	6,938	2.6	7,903	2.8	8,330	2.9
Cash.....	8,425	4.2	10,107	3.8	12,942	4.6	9,691	3.3
Other assets.....	1,755	0.9	1,399	0.5	1,878	0.7	457	0.2
Total assets.....	201,442	100.0	265,197	100.0	279,704	100.0	289,297	100.0
Liabilities to the public—								
Amounts deposited with the coys.....	59,014	36.3	88,822	40.0	86,637	36.8	91,120	38.6
Amount of debentures and debenture stock outstanding.....	80,555	49.6	114,180	51.4	128,393	54.6	135,216	57.4
Other liabilities to the public.....	22,823	14.1	19,058	8.6	20,161	8.6	9,452	4.0
Total liabilities to the public.....	162,392	100.0	222,060	100.0	235,191	100.0	235,783	100.0

Source: *Mortgage Lending in Canada, 1952*, C.M.H.C., Table 7.

(1) Preliminary.

(2) Including sale agreements

APPENDIX "L"

TABLE 9.—DISTRIBUTION OF ASSETS OF COMPANY AND GUARANTEED FUNDS, AND LIABILITIES FOR GUARANTEED FUNDS OF NINE CANADIAN TRUST COMPANIES, 1946, 1950-1952

	1946		1950		1951		1952 (1)	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Assets and Liabilities to the Public								
Assets—								
Mortgages(2)	(\$000)	51.9	186,964	70.5	201,574	72.1	214,150	74.0
Assets of company and guaranteed funds—								
Mortgages(1)	30,118	18.7	60,538	22.6	60,761	25.4	73,458	25.7
Federal Government (including guaranteed) bonds	67,189	41.8	102,252	38.2	97,102	35.4	93,399	32.7
Provincial (including guaranteed) bonds	9,442	5.9	20,652	9.9	24,847	9.0	25,031	8.8
Municipal bonds	7,747	4.8	14,238	5.3	13,846	5.0	14,792	5.2
Other bonds	10,564	6.6	22,108	8.2	23,529	8.6	24,637	8.6
Stock, common and preferred	8,644	5.4	8,495	3.2	9,437	3.4	10,303	3.5
Collateral loans	11,991	7.5	9,384	3.5	11,259	4.1	9,108	3.2
Real estate	4,472	2.8	4,984	1.9	5,087	1.9	5,075	1.8
Cash	7,061	4.4	14,463	5.4	13,893	5.1	21,699	7.6
Other assets	3,386	2.1	4,866	1.8	5,903	2.1	8,204	2.9
Total assets	160,614	100.0	267,940	100.0	274,664	100.0	285,706	100.0
Liabilities for guaranteed funds—								
Trust deposits	31,810	26.5	84,755	38.4	71,131	31.4	93,163	39.2
Other guaranteed funds	88,452	73.5	136,028	61.6	155,255	68.6	144,214	60.8
Total liabilities for guaranteed funds	120,262	100.0	220,783	100.0	226,386	100.0	237,377	100.0

Source: Mortgage Lending in Canada, 1952, C.M.H.C., Table 8.

(1) Preliminary.

(2) Including sale agreements.

Canada - Banking and Commerce,
Standing Committee on, 1954.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

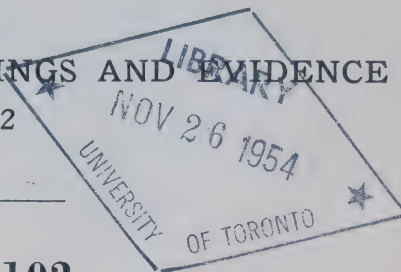
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

THURSDAY, FEBRUARY 4, 1954

WITNESS:

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

MINUTES OF PROCEEDINGS

THURSDAY, February 4, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Benidickson, Bennett (*Grey North*), Blackmore, Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hees, Hellyer, Henderson, Hunter, Macdonnell, MacEachen, McIlraith, Michener, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

The Chairman presented the First Report of the Agenda Committee. (*See this day's Evidence*)

Mr. Hees moved:

"That the third paragraph of the said Report be amended by adding thereto the name *Co-operative Union of Canada*."

And the question having been put the said motion was agreed to.

On motion of Mr. Cannon the First Report of the Agenda Committee, as amended, was adopted.

The examination of Mr. Mansur on his statement presented to the Committee at the meeting held on February 2 was commenced. (*See Minutes of Proceedings No. 1, dated February 2, 1954*)

At 12.50 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, February 9, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

4TH FEBRUARY, 1954,

11.00 A.M.

The CHAIRMAN: Gentlemen, I will call the meeting to order.

First I have the First Report of the agenda committee:

"The agenda committee met at 12.15 on February 2nd. After discussion it was agreed that the clerk would write to the following national associations extending an invitation to send a representative to appear and present their views on Bill 102, to the committee:

Dominion Mortgage and Investment Association,
The Canadian Bankers' Association,
Canadian Construction Association,
The Canadian Congress of Labour,
National House Builders Association,
Trades and Labour Congress of Canada,
The Canadian and Catholic Federation of Labour,
Canadian Federation of Mayors and Municipalities,
Canadian Federation of Agriculture.

It was further agreed that after the examination of Mr. Mansur on his general statement and before proceeding with a clause by clause consideration of Bill 102, Mr. Graham Towers, Governor of the Bank of Canada, would be called and examined.

It was further agreed that representatives of the national associations accepting the invitation to appear be heard before detailed consideration of the bill commenced."

We have left out the Co-operative Union of Canada in the list of associations. Will someone move an amendment? It was an oversight.

Mr. HEES: I so move.

The CHAIRMAN: Will someone move the adoption of the report as amended?

Mr. CARDIN: I move the adoption of the report as amended.

The CHAIRMAN: Gentlemen, in order to carry these proceedings on in an orderly and organized fashion I thought we would follow the presentation that was made by Mr. Mansur. It breaks down in this fashion: First operations of N.H.A. to date, pages one to seven and tables A and B. The second is sources of mortgage funds pages eight to fourteen, chart A, and Tables one to nine; and the proposed changes in the Act, pages 15 to 24.

Now, I will ask you this morning if you would please exhaust one to seven before going on with eight to fourteen. I will have to make one variation to that. A member has indicated he will not be here next week and has asked for a little time to deal with the second portion, that is mortgage funds. I will ask you this morning to confine your questions to pages one to seven.

In that way you will be able to obtain a quick answer rather than an indication from the witness that he will have to obtain the information for you at a later time. If you limit yourself to that for this meeting we will make more progress.

Mr. Mansur is the witness and if you are anxious to question him will you please indicate to me in some way.

Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation, called:

Mr. STEWART: Mr. Chairman, on page one of the presentation, paragraph three, it states: "that with government participation a set of housing standards could be required as a condition of the mortgage loan". I assume that that situation still exists. Housing standards are especially important from the point of view of the lender who wants to see as sound an investment as possible. But there has been a lot of dissatisfaction with the type of inspection which has been carried on in houses built under these regulations. It is possible in a metropolitan area to have a very excellent inspection service on the part of the city; in the suburban area quite inadequate inspection services. My experience has been in some cases that the only inspection made has been from the point of view of preparing groundwork for progress payments.

Can Mr. Mansur tell us if it is the intention of the Central Mortgage and Housing Corporation to go any further and deeper into the full question of inspection of houses being built under loans such as are envisioned here?

The WITNESS: Mr. Chairman, the practice under the N.H.A. is that the inspections are done by the lending institutions. Central Mortgage runs a check inspection of the inspections of the lending institutions. Mr. Stewart is quite right in that there has been very wide variation in the degree of inspections by the lending institutions. I think it is true that in some areas some companies are more demanding than other companies are in the matter of inspections. I think it is also true that in the years when the mortgage business was competitive from the lenders' point of view that the inspection was used as a competitive factor to some extent. Certainly when the lending institutions were looking for mortgage business there was an inclination on the part of some builders to place their business with the company that had the reputation of paying the least attention to inspection. Under the new arrangement, all compliance inspections will be done by Central Mortgage. We agree with Mr. Stewart that the inspections require some improvement in quite a few places. It is our intention to introduce a new order of inspections and we will attempt to insist that the contractor fulfil the standards and meet the plans and that the materials used are satisfactory. We will attempt also to introduce uniformity not only within a single community but uniformity in all cities in Canada.

By Mr. Stewart:

Q. That means that your own inspection staff will be doing a full-time job from the point of view of the corporation itself, to protect the investment, and from the point of view of the owner of the house, to protect his investment?—A. That is correct.

Q. I know very little about construction, but I have heard it said that the standards set by the corporation are unduly high in comparison with other countries and it has been suggested to me we might save money if we reduced the standards in view of the fact that the corporation demands too high a standard of construction for this country. Would you care to

comment on that?—A. The standards of the corporation fit rather closely the National Building Code. The National Building Code is just about to be reissued in new form. The Division of Building Research of the National Research Council has been working two years on this along with everybody in the country interested. Some hundred municipalities are anxious to get the new National Building Code complete, and most of them wish to adopt it as a by-law.

Our present standards are fairly close to the National Building Code. Our standards are also being revised at this time so that we will have a new set of standards to be issued as, if and when Bill 102 becomes law. Our new building standards in the residential field will fit very closely with the new Building Code being issued by the National Research Council.

Now, as to the question itself, I believe that one of the great accomplishments of N.H.A. since 1935 has been the improvement of standards. I would be very sorry to see any of the valuable ground already gained, lost through a lessening of standards. I realize that a good case can be made for lessening of the standards in an effort to take \$1,000 off the cost of the house and reduce the monthly payments by \$6 a month, thereby widening the band of families who can become home owners. The advantages are obvious, but I think that the disadvantages are too great. It is difficult to maintain two sets of standards and on balance, Mr. Stewart, I think that the standards which will come out as a result of the revision of the National Building Code should be followed notwithstanding the fact that benefits would accrue if those standards were relaxed.

Q. But, from the point of view of good construction you consider your standards the minimum?—A. Yes. I believe they are. They have had the best consideration from those whom we consider the most qualified. When the new national building code comes out I would guess that most of the municipalities in Canada will be adopting the National Building Code as their municipal by-law so that in most larger urban centres, and indeed in centres down to 2,000 or 3,000 people, we would be forced to follow the National Building Code even if we were willing to introduce a lower set of standards.

Mr. POULIOT: If Mr. Stewart has finished I have a couple of questions.

The CHAIRMAN: Is Mr. Stewart finished?

Mr. STEWART: Yes, in part.

The CHAIRMAN: The difficulty is I have on my list Mr. Hees, Mr. Fraser and Mr. Cameron who have signalled to me. I didn't catch your signal.

Mr. POULIOT: I did not know there were signals.

Mr. HEES: I will be pleased to give way to Mr. Pouliot.

Mr. POULIOT: I am following Mr. Stewart's line of questions.

By Mr. Pouliot:

Q. Mr. Chairman, I would like to know from Mr. Mansur what is the National Building Code as he understands it?—A. The National Building Code is a set of standards produced under the sponsorship of the National Research Council and offered to the municipalities for their consideration as a document that might be suitable for adoption by the municipalities as their own building by-laws.

Q. Is it illustrated by books and plans?—A. No. It is in narrative form completely, I believe.

Q. It is much easier to make people understand the National Building Code by showing them pictures and plans. Has it been done by the National

Research Council?—A. I cannot answer that question definitely, but my belief is that the National Building Code is not supplemented by plans and illustrations.

Q. It is unfortunate. You understand, Mr. Mansur, that in this proposition which we are studying now there are three elements. There is the individual who wants to build, there is the proposed lender, and there is the Central Mortgage and Housing Corporation. Here comes into the picture another organization which is the National Research Council and they have standards which are new. Suppose you want to build a house, in the first place there is a foundation. What is the standard for the foundation? We do not know. Then, with what material will the house be built? We do not know. What will be the plumbing fixtures? Will there be tile bathrooms or something convenient and cheaper? We do not know. It is important for us to know.

Mr. Chairman, I hope you will have no objection if I ask Mr. Mansur to get in touch with the National Research Council in order that we may have their views in concrete form. At the present time we are at a loss about it. The National Research Council is an impressive body, but it is the first time I heard they were interested in establishing construction standards. Mr. Stewart says he is not familiar with the building business, and I am not either. You must start with the a, b, c's of that so that we can understand it. My first suggestion is that the National Research Council should work a little more on plans. A long time ago there were plans issued by some department of the government, some very good plans that gave ideas to the people. You cannot expect all those houses to be built by builders. People have various needs and expectations. If you have those plans, then those who work in the abstract form or who are theorists will serve the people by making them understand what they mean. Consider my first point. Will you do that, Mr. Mansur, please with the approval of the committee?—A. I will, sir. I may say that in our operations where we are running into trouble in certain building activities that do not fit our standards, we send out builders' bulletins and in them is exactly what Mr. Pouliot suggests, a small illustration of the right way and the wrong way to do it.

In respect to Mr. Pouliot's second point as to plans, I would remind him that Central Mortgage and Housing Corporation has four booklets of about fifty plans for bungalows, storey and a half, two stories, and duplexes.

Q. Now, that is very nice, Mr. Mansur. It is the first information I have had of it. Will you please send a copy of those to each member of the committee?—A. I will indeed, sir.

Q. It will be very helpful to us. I am willing to work with my colleagues, but I want to go somewhere as everybody does and we will do that in a practical way and we will co-operate with you to the limit, but we want to know where we are so that the work we are doing now may be useful to the largest possible number of our fellow citizens. Consider my first point; and my second point is, have you any forms drafted with regard to the putting into practice of bill No. 102? Are the forms made or will they be made later? Have you any that are made?—A. The forms suitable to implement bill 102 are in rough draft form and are receiving consideration. We hope that the forms will be ready for the printer in perhaps two weeks' time.

Q. Would they be available before the matter comes up again before the House?—A. I would think so, although I am not sure.

Q. But, by all means will you be kind enough to send to each member a full set of forms as soon as they are printed?—A. Including mortgage deeds?

Q. Yes.

The CHAIRMAN: You have many deeds in your office, you are a lawyer?

Mr. POULIOT: No. It is done by notaries in the province of Quebec. The practice in respect to deeds is different in Ontario than in Quebec and it may be different in various provinces. I want to know where we are at.

The CHAIRMAN: Gentlemen, my list is: Mr. Hees, Mr. Fraser, Mr. Cameron, Mr. Thatcher, Mr. McIlraith and Mr. Macdonnell. Mr. Hees, are you following the same line of questioning? If not, will you give way to one who is?

Mr. HEES: I have one question which follows the same line.

By Mr. Hees:

Q. I would like to ask Mr. Mansur about these various types of construction, of architecture, which Central Mortgage permits. I know he is aware that in the city of Toronto, or just outside, there has been a certain amount of controversy about a certain type of housing which the A. V. Roe builders wanted to have okayed. Some of the pictures and specifications I have seen and it seems like an extremely attractive type of house which would sell for \$8,000 with a \$2,000 lot which in the city of Toronto is not bad. This was turned down because, as I understand it, it was a different type of construction than Central Mortgage are accustomed to, but that is not any hindrance at all. It looks like a very attractive form of construction. What is your opinion on that particular development?—A. The plans submitted to us in size were outside the requirements of the order in council authorizing loans to defence workers. Whether larger houses are desirable or not, I have no opinion. I do know, however, they were of a size beyond that authorized in the order in council in the regulation in respect to defence workers. As to the quality of the house, I cannot answer that in detail at this time, Mr. Chairman. I would be glad to supply the committee with the points which were under discussion between ourselves and these A. V. Roe employees, but I do not think I can supply it this morning. I will be glad to supply the information to the committee if you so desire, Mr. Chairman.

The CHAIRMAN: We will let the matter rest for the moment. Perhaps Mr. Hees will have an opportunity at a later date to deal with it.

Mr. HEES: It is something I would like to get an answer to.

The CHAIRMAN: We will see an answer is given to you.

Mr. HEES: I just want to ask a supplementary question.

By Mr. Hees:

Q. I have talked to builders asking them why it is not possible to build houses cheaper than about \$10,000. I think you will agree that is about the cheapest house you could build today under the N.H.A.—A. No, sir, I do not agree with that.

Q. It certainly is in the Toronto area. In talking with a number of members of parliament I have not found any who could tell me where you could get a house built under N.H.A. specifications below that price. There may be one, but I have not been able to find it out yet. The builders told me that they could build houses which they think would last almost as long as the present N.H.A. specification houses. They tell me the N.H.A. specified houses now will last anywhere from 50 to 70 years, in their opinion, and they do not think it is necessary to build a house with that long a life, and that they could build houses for \$7,500 or \$8,000 if C.M.H.C. would ease its building specifications somewhat, and they claim that these houses would be extremely satis-

factory as far as size, accommodation and durability are concerned; and they say that they simply run up against a brick wall when they apply to Central Mortgage for permission to build houses of a slightly different construction.

Mr. HELLYER: On a point of order could we have the source of these opinions?

The CHAIRMAN: Mr. Mansur has heard this before.

The WITNESS: I am rather surprised to hear this expression "brick wall". Mr. Hees might be interested to know that the present amendments to our standards are to be discussed with the National House Builders Association, and I do not think it is correct to say that it is a brick wall as far as Central Mortgage is concerned. The forgotten portion of this is the attitude of the municipality. If the municipality maintains a standard at whatever level it may be, then there is nothing we can do for the builders. There is no use of the builders blaming us for the fact that in certain municipalities a wall must be eight inches of masonry; we cannot do anything about that because that is a matter which is within the province of the municipality.

I quite agree that there is plenty of room in our standards for a difference of opinion, and I welcome any suggestions which the builders have. You will find that the builders do a great deal of talking about this subject to everybody but Central Mortgage. I have been in Central Mortgage for eight years and two months and I do not think that I have yet had a builder come to see me about a change in specifications with a view to producing a lower cost house.

By Mr. Hees:

Q. I could take it then, Mr. Mansur, could I, that if builders did approach you, providing municipalities were agreeable, you would look very favourably on altering the specifications to allow cheaper types of construction?—A. The very fact that presently in our new standards we are appealing to the National House Builders Association for their advice and assistance, indicates our attitude, and I do not think the attitude is that of a brick wall.

Q. Am I justified—

The CHAIRMAN: Mr. Hees, the National House Builders Association have been invited to come before this committee. This committee will be very interested if they can indicate that they can build a house cheaper or more suitable. We will listen to them with both ears.

Mr. HEES: Well, good!

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Mansur a couple of questions. I have had quite a lot to do with Central Mortgage and Housing Corporation and the loan companies, and I have heard quite a number of home owners say that in many cases they think that the inspection is not thorough enough, that the inspection should be done a little more thoroughly, not just to protect the home owner but also to protect the firms that are loaning money. Now, what qualifications does a man have to have in order to get a position as inspector for Central Mortgage?—A. He has to have knowledge of light construction. He must have had experience in this field. There are troubles in getting men of proper qualifications for the job. I do not suggest that our inspection service is perfect; I do not think it ever will be; but we are attempting under this new arrangement to improve it greatly and introduce the uniformity to which I referred earlier.

One of the places we are going to draw staff is from the staff we have had on site at a number of defence construction jobs where light construction was built. Personnel from that source and other sources will form the basis

of our compliance inspection service. I think that criticism in respect to the quality of inspection in existing N.H.A. legislation is justified in certain areas, and all I can say, Mr. Chairman, is that we are at this point trying to do something about it. But, Mr. Fraser, in trying to do something about it, I will make a forecast that it will not be long before we hear a great deal from builders about the unreasonable nature of the requirements being imposed by a very autocratic Central Mortgage.

THE CHAIRMAN: "Bureaucratic" is the word.

WITNESS: I avoided that word, Mr. Chairman.

By Mr. Fraser (Peterborough):

Q. I would like to ask if any thought had been given to a school for these inspectors, where they could learn to read specifications and blueprints, because I am afraid that some might not be able to do that at the present time.—A. Mr. Fraser, we presently have under way several courses in each one of the five regions with exactly that in mind. Now I would hope that, whereas such a course might be helpful to all of the people who attended, it would be necessary for very few of those attending.

Q. I am very glad to hear that. I noticed in the paper this morning that it was your Central Mortgage and Housing Corporation that inspected the garage at Halifax that just collapsed. Well, now, was that man qualified to inspect a building of that kind?—A. Well, it depends, Mr. Fraser, whether it collapsed by reason of the design, material, or inspections, and that has not yet been determined.

Q. Mention has been made of lowering the standards, and mention has also been made by Mr. Stewart that in some other countries the standards are much lower. In contacting some of the builders and some of the men that should know something about it, they claim that our standards should be kept at a fairly high level owing to the severe winters we have and the heavy snowfalls. Are they right in that?—A. I believe they are, sir. I think that we should be careful that the footings are well below frost level, that the roof is designed to withstand the heavy snow loads in the area in which the house is located. I think that the new standards, as required by the National Building Code to which our standards will conform, have all of those things in mind. Although there is room for a difference of opinion, I must say that I am on the side of the maintenance of reasonably high standards as against lowering them.

Q. Well, some few years ago there was a little difference of opinion between Central Mortgage and the Corporation of the City of Peterborough on your standards, and eventually, I believe, you came up to their standards and everything now is all right, but have you had difficulty in other municipalities in regard to the same thing?—A. Yes, we have had differences of opinion with a number of municipalities, of which I think Peterborough was one. There are occasions when we feel that the municipal standards are unduly high. The National Building Code and the support which the Research Council has had from the municipal engineers gives indication that before long some of the municipalities will be easing off slightly on some of their more rigorous requirements. I look forward to the day when perhaps we will have relative uniformity across the country. I understand, Mr. Chairman, that early indications are that 162 municipalities are awaiting the issue of the new National Building Code so that they may present it to their council for adoption.

Q. One more question. Is it true that the standards will have to be kept fairly high in order that the buildings that are erected will last out the 30 years or more that the mortgages will run?—A. No, sir, I think I agree with Mr. Hees on that. I think that the standards are such that maybe a range of

50 to 75 years is a better guess, but I do hope that I will not be a party to lowering standards to an extent that we may expect the falling down of every house we build in 1954 in the year 1984.

Q. You and I won't be here.—A. I hope to be, sir.

The CHAIRMAN: Mr. Cameron.

Mr. CAMERON: My question is not a question of building standards, if someone wants to follow that line.

The CHAIRMAN: Mr. McIlraith.

By Mr. McIlraith:

Q. Mr. Mansur, in answer to the second or third question asked by Mr. Stewart, I understood you to say that Central Mortgage were going to undertake to protect owner's investment through the inspection. I take that to be a new departure?—A. It would be a new departure, and if I created that impression I am afraid it was not quite correct. I tried to indicate that some protection was being offered to the owner and his investment by steps taken to assure quality in the house, but as to assurance of owner's investment by reason of building standards, I do not think this is done in this way.

Q. Why would you have any interest in the owner's investment if you were getting an additional house built and you were getting the mortgage money made available? Suppose there was a difference of opinion between you and the owner as to his investment after the loan was paid off, what would your interest in that be?

The CHAIRMAN: I do not follow the question.

The WITNESS: I do not follow the question.

By Mr. McIlraith:

Q. Perhaps I could put it this way. I thought I understood you to say you were going to undertake to protect the owner's investment. I had listened to your previous brief and noted on reading it, on page 27, you say:

The arrangements with the contractor and the fulfilment of the contract are the sole responsibility of the applicant and not of the lender or Central Mortgage.

I had understood your answer to Mr. Stewart to be in direct contravention to that statement.—A. I think that maybe it was and I did not mean it to be. What I really meant was that if we have improved the quality of the house by compliance inspections, then the interest of the owner indirectly will be benefited. That is really what I meant to say.

Q. That clarifies my point. I have two other questions. At the bottom of page 4 in your statement you say: "Nine of the ten provinces have passed complementary legislation authorizing agreements with Central Mortgage to initiate projects". Which province has not yet passed complementary legislation?—A. Prince Edward Island.

Q. Then you say in the next sentence: "In seven provinces land assembly and/or rental projects have been undertaken". What provinces were missing?—A. Prince Edward Island, the Province of Quebec and Manitoba.

Q. Then, turning to page 6 of your brief at the last hearing, about one-third of the way down the page we find this sentence:

It introduced into Canada for the first time—now the general practice even in conventional mortgages—the advantages both to the borrower and the lender of monthly payments of principal, interest and taxes.

I take it that in that sentence you assume that it is an advantage to the lender to have his repayments in monthly instalments.—A. Oh, very definitely, yes.

Q. To a lender?—A. To a lender.

Q. What I am coming to is that in the field of investment money available outside of mortgage institutions and lending institutions, I had always assumed that the monthly payment practice was offensive to them and objectionable because they were not in the mortgage lending business in a big enough way, each one of them, to handle the servicing of this type of loan.—A. Mr. Chairman, on that point, probably one of the most difficult matters in the early thirties was the arrears of taxes. It certainly caused the mortgage lenders a great deal of trouble. When conditions became less favourable the accumulation of taxes as well as principal and interest became onerous. At about that time other people were competing for the consumer's dollar and had introduced a monthly arrangement for motor cars, washing machines, vacuum cleaners, and the like. The mortgage lenders, loath to change—and I remember it well because of the very point you mention—decided they would institute monthly payments, chiefly because it was the only way they could lend under the old Dominion Housing Act. Mortgage lenders have changed their minds in this respect, to a point that even in conventional loans they now follow that practice.

Q. Well, I notice you used the term "mortgage lenders". What I am coming to is the small group of lenders who are individuals. From a reading of your statement, I take it that their lending is of some importance in making more money available. Why should we assume that they would want this provision because it makes it virtually impossible for them to lend on mortgages?—A. To the extent that the individual lenders become owners of insured mortgages, provision is made that the administration of that insured mortgage shall be by an approved lender. The difficulties of the individual collecting on a monthly basis will be removed if the investment in an insured mortgage loan is handled by an approved lender who had facilities so to do.

The CHAIRMAN: Was that your point?

By Mr. McIlraith:

Q. I can see that the new legislation providing for that administrative machinery removes one of the difficulties, but how can an individual lender reinvest the capital repaid in the small monthly instalments? There is no investment sufficiently small to take a monthly instalment.—A. I think that is the difficulty on that score from a small lender's point of view, but the other side of that coin is that these lenders who during the early part of the century felt they were not going to deal with that difficulty and preferred an unamortized mortgage loan found that depreciation took place in the house and it was not long before the mortgage loan was greater than the depreciated value of the house.

Q. Oh no, but that is easily taken care of by having repayments each six months on account of the principal. My point is this: have you given any thought, in this new legislation, where you provide for the lending institutions servicing the mortgages, have you given any thought to preserving the provisions of repayment of principal other than on a monthly basis, so as to keep the small but numerous lenders in the lending field?—A. Mr. Chairman, the idea of principal, interest, and tax payments on a monthly basis has been such a cardinal principle of the Housing Act, ever since the original Dominion Housing Act, that I question whether the government has given a great deal of consideration to departing from that cardinal principle.

Q. I was not suggesting, Mr. Mansur, that they depart from a cardinal principle, but I was suggesting that what we are doing is tending to make it difficult for the small mortgage lender, the small individual mortgage lender, who is an important factor in having a great number of houses built each year in Canada.—A. I see the point at issue, Mr. McIlraith, but I do believe that the small mortgage lender is the type of person who adds to our supply of mortgage credit by conventional loans of lower ratios than contemplated by

this Act; I think that in theory—if you do not mind my saying that—you are quite correct. But, I think the difficulty which you have quite properly brought forward is reduced because smaller lenders stay in the conventional field.

Q. Those are all my questions, Mr. Chairman.

The CHAIRMAN: Now, Mr. Macdonnell?

Mr. CAMERON: Mr. Chairman, on a point of order, I gave way. Now am I to understand that Mr. McIlraith wanted to go on and discuss building standards?

The CHAIRMAN: I do not know. I called both of you.

Mr. MACDONNELL: Mr. Chairman, I am on building standards.

Mr. CAMERON: That is not my question.

The CHAIRMAN: Who is on building standards? Very well, Mr. Macdonnell.

By Mr. Macdonnell:

Q. Mr. Chairman, it seems to me that this question of standards is an important one. There are two or three remarks which Mr. Mansur made in which I feel much interested. He spoke of a proposed training program, and he said there were cuts which could be made, and in lowering the standards, if you cut \$1,000 off a house, it would cost \$6 less in monthly payments. But the real point I am making is this: he mentions the attitude of the municipalities. Now I would like to ask him if that is not putting the cart before the horse?

Are not the municipalities led by the National Building Code which has been arrived at by very competent and perhaps distinguished people? But I wonder, when they are considering and arriving at these standards, whether they are doing it as bankers or from the point of view of people like ourselves who have to try to find out the way in which the largest number of people can be given a cottage over their heads, for that is what we are doing.

Mr. Mansur left me with the feeling or the fear that perhaps the national people who arrived at the National Building Code might not be considering carefully enough the problem that we who are here are trying to consider, which is this: that perhaps a lot of people are not going to benefit because of the cost involved, and finally we feel that the municipality is the jump that we cannot get over?

I wonder if we are not perhaps fooling ourselves a little? Most municipalities are not competent themselves, in not being able to have experts to come and work for them. Therefore, are they not inclined to depend upon the standards which have been arrived at by the National Building Code, and have not those standards perhaps been arrived at without full consideration of the problem of finally getting houses down to the point where they can be as serviceable as possible and yet cost as little as possible?—A. I agree with a lot of what Mr. Macdonnell has said. I think it is largely a matter of degree. We have had participation in the deliberations leading towards the new National Building Code. We have taken the position which Mr. Macdonnell has taken, how successfully I am not sure.

I am not at all sure how much could be saved by a reduction in the standards of the code. There are a lot of things which go into houses which look to be expensive but which are not expensive. Take for example flooring. The lower the income of the family that goes into a house, the better should be the flooring. A hardwood floor is most required for the very lowest income groups. When you get into the carriage trade, you could use spruce, because

you know there is going to be ozite to cover it, and on top of that you know there is likely to be broadloom carpeting, and perhaps persian rugs over the broadloom, so that it really does not matter if you use a lower grade of flooring.

But in houses where there are, let us say five children, with no rugs on the floor, you must put in hardwood flooring in the house. We discovered that ourselves.

And take heating equipment, for example. You can use gravity warm air heating equipment and thereby save \$135 per unit. On the other hand a forced air system will be much more efficient and the use of it will probably save many times 5 per cent per annum on the \$135. There is always this point of conflict.

I think the solution is to be found in a reconciliation between what is most desirable from the purely physical point of view and what is reasonably to be asked for by the municipality as a minimum standard. Whether that reconciliation has been too far up the scale or too far down the scale, I am not quite sure. Therefore I come back to answer your question by saying that it extends back to a matter which is pending. I think we are about in the middle, and I think it would be interesting to examine just to what extent a saving could be made in house costs by reason of a change in the materials and methods of construction, through altering the standards which are suggested in the National Building Code.

I would be very surprised if you could take 7 per cent out of a house by bringing them down to the bare minimum suggested by someone most interested in reducing the standards.

The CHAIRMAN: Now, Mr. Cannon.

By Mr. Cannon:

Q. Mr. Chairman, we are all here to voice the opinions and the needs of our own constituents. But I must say, that as far as the Magdalen Islands are concerned, unfortunately, so far as this matter of standards is concerned, we have not been able to get one loan so far under the National Housing Act since I have been a member.

The object of this Act is to permit the greatest possible number of Canadians to build, and the most important thing we are looking into today is to enlarge the scope of the Act.

Now, Mr. Mansur, you have said that you think the standards ought to follow those of the National Building Code as much as possible. You say that you think that a great number of municipalities ought to adopt the National Building Code as a by-law, and that it would prove to be good and reasonable as far as those municipalities are concerned. That applies almost completely to urban municipalities. However, we have ourselves to consider rural municipalities.

I am quite sure there are a great many members who have found that they cannot get loans in their constituencies because the standards are too high, and because the plans that are submitted are for houses which are too costly.

I suggest that we should arrange to have some flexibility in this matter of standards and we should not have the same standards in urban municipalities, in urban places, that we have in rural places; and that when fixing standards, and when drawing up plans which are going to be suggested, we ought to consider the conditions of a particular community or region where the building is going to take place.

All I have to say follows along the same line as Mr. Macdonnell's remarks. I want to appeal for flexibility in the building standards, and I ask you, Mr. Mansur, if you do not think that we could not attain as much flexibility as possible, having regard to that point of view.—A. The answer to your questions,

Mr. Cannon, is yes. Right at the moment we are working on some housing units for use in the Eastern coast of Newfoundland, at a point 100 miles north of Bonavista. This is a case where what you suggest will be adopted. There are certain other areas where this has been done. Generally, I think we are prepared to go a long way to meet the type of problem that you suggest. Once again, it is a matter of degree. I am quite sure that you can find some within your constituency who would consider that we were unreasonable, no matter what standard was our minimum.

Q. You cannot go too far.—A. That is just the point. You cannot go too far. But who is to suggest what is "too far"?

Q. And how far you can go?—A. The answer is "yes". We will give flexibility in areas which seem to require it.

Q. I am very interested in your plans for the building of houses in the Bonavista area, and I am sure that they would probably suit the Magdalen Islands very well.—A. I am sure they would.

The CHAIRMAN: Now, Mr. Macdonnell.

Mr. MACDONNELL: Must flexibility be on a purely geographical basis?

By Mr. Cannon:

Q. Might I ask, Mr. Chairman, with respect to these houses which you are contemplating building in the Bonavista area, how much they are going to cost?—A. We are shooting for \$5 per square foot.

Mr. HEES: That would be about \$5,000, would it not?—A. For a house 33 feet by 33 feet yes, but constructed according to urban standards, and including a builder's profit, of the order of \$8.50 to \$9 a foot.

By Mr. Cannon:

Q. What would that represent in total cost at approximately \$5 a foot?—A. We are hoping to do a 1,000 foot house for around \$4,500 to \$5,000.

Q. That sounds reasonable.

The CHAIRMAN: We hope you do not miss when you are shooting. Did you want to ask a question about standards, Mr. Noseworthy?

By Mr. Noseworthy:

Q. Yes, Mr. Chairman. I have one or two questions about standards. Might I ask, who is responsible, in the final analysis, for the formation and approval of the National Building Code? Is it Central Mortgage and Housing?—A. No. It is the National Research Council. They have appointed an advisory committee to assist the Council in the development of the National Building Code. In the final analysis, the Code is brought down by the Council, and therefore I believe the responsibility is that of the Council.

Q. I understand that under the new legislation the inspection of houses is to be taken over by Central Mortgage.—A. That is correct.

Q. Is there likely to be a much closer inspection than there was under the joint lending system?—A. Over all, yes. There are some of the lending institutions which, I think, have done a very good job of inspection. I would be quite happy if the national inspection service would live up to those standards. But in the over-all, Mr. Noseworthy, I would hope that there will be improvement and greater uniformity of compliance inspections.

Q. Probably the most criticism I have had with respect to houses built under the joint lending system is the lack of inspection. I have had buyers tell me: This house has not been built of the type of material, the wood, and so forth, and with workmanship that was standard. I would certainly think that this change, if anything, should be one for the better, and I certainly hope there will be some tidying up of the inspections.

You mention flexibility on a geographic basis?

The CHAIRMAN: Just one minute, please. That arose as a result of a very proper question from Mr. Cannon, but we don't want to refer to it for a few minutes. Is there anyone else who wants to ask a question on standards?

By Mr. Applewhaite:

Q. Yes, Mr. Chairman. I have a double-barrelled question. Have your inspections, required in the past, been any reason to make it difficult to borrow money with which to build houses in outlying fields, or in unorganized territory; and can you guarantee that with your multiplicity of inspections you are not in fact making that situation even worse?—A. I do not think that I agree with the first question, Mr. Applewhaite, and with respect to the second question it is almost inapplicable if you do not agree with the first.

Q. May I say, with respect, that surely it does. If you are going to require from four to seven inspections, would that not slow down or make difficult the borrowing of money in the purely isolated communities, or in the unorganized districts?—A. I think I misunderstood your question, Mr. Applewhaite. We realize the danger, and therefore we feel that our administrative organization in the field must be expanded considerably. Generally speaking, we will attempt to have a man within 50 miles of 90 per cent of the houses which are built under the National Housing Act; and we will put on a schedule of compliance inspections which will be directed towards giving satisfaction to the builder and owner. I think we will have some trouble, but it will not be for long.

We will try to have mortgage money supplied to finance work just as well in Williams Lake as in Vancouver or Chilliwack.

In some areas we are now doing all the compliance inspections; and I do hope that in some of the communities we might find a good municipal engineer to act for us.

Q. The ones I have under consideration are too small to have a good municipal engineer.—A. After all, we have made 6,750 loans in some 750 communities. I am not suggesting, however, that our operation has been perfect. But I am suggesting that our operation covers wide areas and has been more effective than any other that has been tried in those areas.

Mr. MACDONNELL: How many have been turned down?

The CHAIRMAN: No, no. Not now—

Mr. MACDONNELL: Well, Mr. Chairman, it is on the same point.

The CHAIRMAN: There are a great many people who have asked for an opportunity to speak. Now, Mr. Michener?

By Mr. Michener:

Q. My point, Mr. Chairman, very briefly is this: there has been a great deal of interest shown in the subject of housing constructed of new materials with new methods of construction, and whether or not the result would be one of economy, or one in which the cost could be kept down. Now, Mr. Mansur, would you care to give us any information as to what advancement has really been made in, let us say, the last 10 years, between the post-war houses and the modern type of houses which you are approving today. They may look much the same, and have the same number of rooms, openings and everything else; but has there been any real advancement in the building construction, materials and methods, which has resulted in cost savings in the interval?—A. In the post-war years there has been a lot of money spent in the U.K. and U.S. and indeed here in an effort to find cost-saving methods, and cost-saving materials. In the material field there has been very little progress in my opinion. You do see some new components. You see counters of aborite and masonite, and see cer-

tain of the plastics being used in bathrooms which probably cuts the cost as against ceramic tile, but anything spectacular, no. In the fabrication field I think more progress has been made. There has been quite a trend towards pre-cutting. There was the post-war swing to prefabrication which fell on its face but was rationalized by pre-cutting on site or at the fabrication point. In this respect I think a lot of progress has been made. But all the "pie in the sky" post-war hope for houses which were going to cost one-third of the present houses, did not get very far. I think the activities both here and in the U.S. and U.K. towards low cost houses by different materials and new low cost building methods have been a disappointment.

Q. Heating seems to me in this country to be the prime area in which savings can be made, because of the temperature and cold. Insulation and heating methods might be substantially improved so as to reduce the cost of installation and operation to enable people to carry a higher capital investment.—A. I think it is in those two fields that probably the most progress has been made, that is the fields of insulation and heating. The unusualness of a well insulated house has gone completely. They are all now pretty well insulated. Heating equipment has swung largely to oil and there have been tremendous strides made in the efficiency of oil heaters. I may say that there is no Canadian standards association in respect to oil heating equipment. There have been a lot of exaggerated claims made for oil heating equipment and as a result we have an arrangement in conjunction with the National Research Council whereby at Queen's University we have a testing station for oil heating equipment to test the various types of oil heating equipment. It is not done on a commercial standards basis. We buy the unit outright and have a good look at it. The progress in more efficient heating has been tremendous. There are eight-room houses now whose owners boast of a heating bill of \$150 a year, a thing unheard of pre-war.

By Mr. Stewart:

Q. On this matter of home inspections, I was dwelling before on the home owner's paradise, I thought, and as a result of the answers to Mr. McIlraith I had a sense of disillusionment. What does inspection mean? Is it going to mean that the C.M.H.C. inspector will inspect and satisfy himself as to the quality of the lumber and adequacy of the plumbing, and inspect and satisfy himself as to the safety and adequacy of the electric wiring, and foundations, and that the specifications have been pretty faithfully carried out, or just exactly what will those inspections mean?—A. We will go on site at the bare excavation stage and see that the footings are poured in accordance with the plans and specifications. The inspector will return after the basement walls are poured and see what is happening in respect to the framing. He will return again when the house has been sheeted in, and will certainly return when the plumbing and electricity has been roughed in. He will be back again at the time the plumbing and electricity is being closed in by a wall surface of some kind. He will be back again when the finishing goes on—the millwork and the hardwood floors—and will be back again when the house is finished.

Now, this inspection is not an architectural inspection with responsibility to the owner. For a full architectural inspection for a house of \$10,000 by an architect would cost the owner about \$300, something around three per cent. In such a case, the architect is on the job more than we can afford to have an inspector on the job and for his fee he has some responsibility to the owner. We hope that many of the benefits of an architectural inspection will flow to the owner without having the owner pay, say \$300 per unit for it. The owner does not get as much from compliance inspections as from an architectural inspection. The point at issue is whether the owner can hold Central Mortgage

responsible for the deficiencies which he feels exist after he takes over the house from the builder. The present policy is that the owner must, as mentioned on page 27, sub-section 3, look to the builder for fulfillment of the contract.

Q. But, it does mean under this new situation the owner will feel reasonably sure that specifications have been lived up to.—A. I do not think that is the case. I think there are some owners who, if every tap was gold-plated and was given Persian rugs from wall to wall, and the house was built under the supervision of 87 architects, still would not be satisfied that the builder had done the job as well as possible. There are at least an equal number of unreasonable owners as there are builders who fail to do a good job. We see some cases where we agree with the owner and other cases where we agree with the builder. Just as there are builders who do not do their job, there are also owners who are unreasonable.

Q. Could I build a house and if I were not satisfied call in an inspector to substantiate my claim?—A. That happens all the time. Unfortunately we get in the position of being an arbitrator between builder and owner. Now, if in our opinion we find that the builder is being slipshod in doing a good job for the owner we take him off our list and will not do business with him any more. This is a tremendous sanction but we intend to follow this practice.

The CHAIRMAN: Mr. Cameron, you and Mr. Thatcher passed up your first opportunity. Is there any particular question you have now, Mr. Cameron?

Mr. CAMERON: Yes. Mr. Mansur, what measure of control do Central Mortgage and Housing exercise over the form of lease and the terms of rental on rental properties built?

Mr. TUCKER: Before we come to that, I would like to follow up the question raised by Mr. Cannon.

The CHAIRMAN: I had a special arrangement for you because you are going to be absent part of next week.

By Mr. Tucker:

Q. I wanted to follow up this thing before I leave. To what extent is this legislation going to improve the situation in a good part of this country that it has not helped in the past, these rural areas, smaller areas such as Mr. Cannon mentioned, and a great part, for example of our province of Saskatchewan where they do not have sewer and water in most of the smaller urban centres. To what extent is it contemplated that some help will be given in those areas? Now, in the past anyway and I think in the future, whether we like it or not a great many people have had to live and bring their families up in homes that have cost \$2,000 and \$3,000, which were not modern and so on, but they were livable and fitted in with their ability to pay for them. Now, we are still going to have to provide homes like that in Canada. To what extent are we going to help people in that particular field in this legislation to get homes?—A. I think, Mr. Chairman, that the flexibility in the standards will be considered within reason. If the need is for new houses at \$2,000 as was the figure suggested, I do not think there is any possibility at all of them being financed under this legislation.

Q. What about, shall we say, \$3,000? Now, it might be that it was not fully modern because there is not sewers and water in the community, but would be a house that could be lived in. It would be warm and better than a great many people live in today. It would be a new house instead of an old one. Is there any provision at all in this legislation for helping out people who might like to build a house at say even \$4,000 and give them a better house than many people live in already, or is this just to build on a uniform standard put out by the National Research Council and this National Building Code?

Because, if so, it is just to build a house fully modern and going to cost at least \$5,000 and there are many people it is not going to help. I just want to know what the situation is in that respect—A. I do not think, Mr. Tucker, that under even a set of standards modified for outlying areas that a house on twelve hundred feet can be built for \$5,000.

Q. They are being built all the time, Mr. Mansur, people are building them and living in them. They are not fully modernized as I say; they are warm and new, they are shelter, and I would think—I hate to think it—but I think it is true that half of the population must be living in houses today that are not fully modern, just good clean warm shelter, and that is going to be the case for some considerable time in our rural and smaller urban centres. As I understand it they have been left out of any legislation like this in the past because I have known applications to be made from our area. They never got any place. I just wonder if they are still being left out in the contemplation of this legislation?—A. There have been loans under the N.H.A. made in about 65 of these smaller communities in Saskatchewan. The list starts off with Allan, Asquith and Assiniboia, and ends up with Wilkie, Willow Bunch, and Wynyard.

Q. What about Allan? How many loans have been made there?—A. One.

Q. What is the amount of that loan?—A. I would guess it was about \$6,000 or \$7,000.

Q. The house would probably cost at least \$10,000.—A. Yes.

Q. There would not be more than four or five per cent of the population there that would ever be able to afford a house like that?—A. That is correct.

Q. I am wondering if we are contemplating any more flexibility in the legislation in the future?—A. That, of course, is a matter for the government to determine; not for me. But, certainly it would be a reversal if the government at this time decided to make financing under the N.H.A. available for substandard houses, no matter how pressing the demand for those substandard houses might be.

Q. They might not be substandard in line with the community in which they are built where there is no sewer and water and sometimes not even electric lights. They are not substandard as far as those communities are concerned. Do I understand that that is the attitude to rule out communities unless they can build houses that are in line with the National Building Code suggestion of what is desirable?—A. I have no attitude at all on it. All I can do is repeat that one of the main principles of the Dominion Housing Act when it was introduced in 1935 was to provide housing at what was then considered a reasonable standard of construction. Never at any time has the Dominion Housing Act, or its successor the National Housing Act, been used for housing that does not include the reasonable amenities expected by the standards. There have been modifications and flexibility in the standards, but not to permit the type of structure which you suggest. Only for the loans to primary industries, has there been financing on houses which are really a shell with not much in the way of inside facilities.

Q. In other words you have not entertained applications for loans unless the houses were going to be fully modern?—A. We can both remember when a community as large as Rosetown had no sewers.

Mr. MACDONNELL: What about Newfoundland? Is that not along the same principle?

The WITNESS: Yes, but we will require chemical toilets in them and foundation walls to the frost level. We will require a heating system suitable for that particular structure. I gather that Mr. Tucker was talking of something considerably below that at \$2,000.

Mr. TUCKER: I mentioned \$2,000 and \$3,000. I realize the costs have gone up. You mentioned Rosetown and it cost them about \$115,000 in that comparatively small place to put in a sewage system and it is the only town in that

whole area that has it. I take it if you insist on a house being fully modern it is going to cost more to build a house in smaller urban communities like that than where there is a water and sewer system. Where you have got a system that is in accordance with the public health regulations, and where everybody in the town do not have things like flush toilets perhaps with the exception of maybe 6 per cent of the people, but would be quite content to have the same standards as everybody else in town. I take it they are still outside the pale so far as this legislation is concerned?

The WITNESS: Mr. Chairman, I did not get the question.

Mr. TUCKER: In these communities where you have not sewage systems you still require that the house be fully modern?

The CHAIRMAN: The sewage system is not the test.

The WITNESS: I do not think there is a sewage system or running water at Allan or Asquith.

Mr. TUCKER: And have you required the houses there to be fully modern with inside toilet system and running water?

The WITNESS: Yes.

Mr. TUCKER: You have?

The WITNESS: Yes.

The CHAIRMAN: Mr. Cameron, I am back to you. Has your question been answered?

Mr. CAMERON: No.

By Mr. Cameron:

Q. I asked him what measure of control Central Mortgage exercises over terms of leases on rental property built under the terms of the National Housing Act.—A. In the case of rental insurance, where we have insured the rentals, the terms of the leases are determined by us in the first three years with the major condition being that there shall be a controlled rental level during those first three years. However, in the ordinary rental loan under the old section eight, that is an eighty per cent loan to an owner on an apartment house, we have no control over the terms of the lease.

Q. None whatever?—A. None whatever.

The CHAIRMAN: Mr. Thatcher.

By Mr. Thatcher:

Q. I find that in my constituency in the case of rural housing, even where the standards are up to the specifications, the loan companies have not wanted to go out to the rural areas, and I was wondering if you could tell me, since 1945 roughly, the percentage of homes that have been built in the rural areas as against the homes that have been built elsewhere under N.H.A. and under Central Mortgage. By "rural" I mean on the farms, not in small towns.—A. On the farms? A very minute number, Mr. Thatcher, on the farms. You will appreciate that in the period from 1941 to 1951 the number of farms came down by forty or fifty thousand, and likewise the occupied dwellings came down. The result is that the loans on the farms have been much more in the field of maintenance and improvement than in the new construction field. We have made, I think, only about eight farm loans in the last six or seven years, I do not think, Mr. Thatcher, we have had more than ten or twelve applications. There just does not seem to be any demand for loans for new farm houses. The actual number, sir, is nineteen farm loans.

Q. That might be, but it is not because the insurance companies and lending agencies do not want to put their money down? There have been more than eight or ten in my riding.—A. I mean, financed under the National Housing Act.

Q. Do you think, then, that under the new Act or the amendments farmers will be able to get houses more readily than they do under the present set-up, or is it going to be just the same?—A. It all depends to some degree on the attitude of the banks. It will also depend on how much money the farmers want and they may prefer to get their money under the Farm Improvement Loans Act than to mortgage their property. I do not think there will be any rapid increase in the amount of farm houses financed under the Act because, quite frankly, I do not think there is a demand for it.

Q. I cannot agree with you there, but you may be right. There is one other question. It seems to be one of the weaknesses of the contemplated Act that it is not going to take care of the housing backlog. On pages 1 to 7 you more or less give us a history of the Acts of parliament we have had in recent years dealing with housing. I am interested to know, as you say on page 2, that in 1944 parliament started the present National Housing Act, and in 1945 for its operation created Central Mortgage and Housing Corporation. I would like to know if you could give me the figures of what the net backlog of housing was in 1945 and, roughly, what it is at the present time. In other words, have we made any progress with all these Acts in catching up on that net housing backlog?

The CHAIRMAN: Mr. Thatcher, I think the witness anticipated that question, which will take some time to answer. Do you mind if he answers it at the next meeting?

Mr. THATCHER: That should only take a second.

The CHAIRMAN: It would take fully five to ten minutes to answer it. He will have it for you at the next meeting. It is an important question.

Gentlemen, you must forgive me if you did not have an opportunity to question the witness. A great number of members want to question the witness; I merely indicate to you that, starting next Tuesday, you should try to arrange your work so as to attend two meetings a day and perhaps for more than two days a week. The interest of members in this bill is great and, I think, will continue.

Mr. Tucker informed members of the committee and myself the other day that he was not going to be in the city next week and he wanted an opportunity to ask a few questions of Mr. Mansur having to do with the source of mortgage funds. Since it is a natural question that will arise in a little while, I told Mr. Tucker that I thought it would be all right to let him ask his questions. Mr. Tucker, go ahead.

By Mr. Tucker:

Q. Thank you very much. This comes within pages 1 to 7. This is referred to on page 7:

To some degree in 1953 operations under the Act have been limited by inability of the present group of lending institutions to provide sufficient funds to meet the demand for joint loans. There is every prospect that over the next few years this limitation will become more important. To maintain housing starts at the 1953 rate under present arrangements would, I believe, require increased direct lending by Central Mortgage. Starts at a higher level would further increase this requirement.

I wondered if Mr. Mansur could tell us anything about the suggestion that I now put. In 1939 the Central Mortgage Bank Act was passed. This Act was designed to enable the existing lending institutions to get new money from the Central Mortgage Bank, which was in substance if not in fact a subsidiary of the Bank of Canada, by pledging their existing mortgages and assets to the Central Mortgage Bank Act, with a rediscount provision to give them similar

rights to what the banks have to get money from the Bank of Canada. In other words, the Bank of Canada can actually make loans to the extent of ten times their actual reserves. The idea was that the existing institutions that would engage in this business should be given the right to get new money by setting up a Central Mortgage Bank that was to perform similar functions for the existing lending institutions as the Bank of Canada did to the banks. I understand that one of the reasons for that measure was that new money was required for mortgage loans then and it was felt it should be provided by the financial institutions already in the field, and it was felt that plenty of new money would be provided by that provision, and that by providing this new money in this way in effect by a subsidiary of the Bank of Canada the money could be provided more cheaply than by mortgage companies, loan companies and life companies could get it otherwise. The result would be that money would be provided to the people who wanted to borrow money for building, and so on, at lower rates, but it would not mean the cutting down of the yield on insurance policies, and to those lending savings. In other words, you would bring the benefit into the mortgage field that you get under our banking system for the people who borrow money for commercial purposes for by virtue of this right of lending money to the extent of ten times the reserve; you bring down the cost of money to the people who borrow from the banks. I would say that by the setting up of the central mortgage you would use a similar system bank to bring down the cost of money in the long term lending field by enabling the financial institutions already in the field to get the money through a central mortgage rediscount bank. Now, the thing I had in mind was that we were told at the time by experts such as Doctor Clark, then Deputy Minister of Finance, that this system would provide plenty of new money.—The Act I believe was never brought into operation because of the outbreak of the war, it was never set up—but it seems to me it would be more logical to have the existing institutions provide the means of putting out new money rather than use the banks who already use that system of rediscount, and so on, to get new money, because once you bring the banks into the field, then of course you hold out inducements to them that perhaps will throw their whole system of financing farmers, business men and so on, out of balance. It seems to me that we should try to use the existing institutions by providing them with the means of meeting the demand for long term money. I just wondered why this Act, was not brought into effect. You must have gone into this carefully. I intend of course to raise it with Mr. Towers and subsequent witnesses, but you put it in your statement here that this is the only way to do it effectively, and I wondered what consideration had been given to using the existing legislation, which of course would require some amendment to bring it up to date. Please tell us to what extent consideration had been given to using the machinery that was set up in 1939.—A. Mr. Chairman, if I could deal with the last part of that question first, I think one of the main benefits of the proposal is that there will be more outlets of credit—

The CHAIRMAN: Mr. Mansur, you say “one of the main benefits for the proposals—”. What proposals?

The WITNESS: I think one of the main benefits of Bill 102 is that the network of credit outlets will be increased considerably. The present lending institutions have about 125 to 150 offices in all. In the province of Saskatchewan; there are about four mortgage offices in Regina and about three in Saskatoon, and that's all. It seems to me that any system that has a wider contact with those who wish to use the system will be beneficial. Now, going back one step further. The old Central Mortgage Bank had emphasis, of course, on the rewriting of debt rather than on the new business side. It is perfectly true that the Central Mortgage Bank provisions did provide rediscount facilities in respect of new business, but the main operation to be done under that Act was the rewriting of farm debt and some urban debt.

Mr. TUCKER: That was just to begin with.

Mr. POULIOT: But it was never put into operation.

The CHAIRMAN: Mr. Mansur, I have a feeling that housing is pretty well your field and you are very good at it but that this business of finance should be left to Mr. Towers, who can handle the matter very well.

Mr. McILRAITH: Mr. Mansur is a government employee.

The CHAIRMAN: I am afraid that with the very best intentions you may mislead Mr. Tucker who is an expert in this field.

Mr. HEES: The whole thing is based on finance.

The CHAIRMAN: You will have Mr. Towers before the committee. He is an expert on financing, and he is well acquainted with this Act. I think Mr Mansur should stick to housing.

Mr. HEES: I think that housing and banking are inextricably tied together in this thing and if Mr. Mansur cannot answer the questions as to how the banks will be used I will be very surprised.

The CHAIRMAN: The banks will be here to speak for themselves. Mr. Mansur is dealing with housing, and Mr. Towers will speak on behalf of the Bank of Canada, and you will be able to obtain all the information you want from him.

Mr. TUCKER: On this point, Mr. Mansur is dealing with the question from the standpoint of operating the housing Act, and I think, to the extent that he feels he is able to answer, I am sure an answer would help.

The CHAIRMAN: Mr. Tucker, if I permitted him to proceed—

Mr. MACDONNELL: I do not think Mr. Mansur would get in over his head.

Mr. HEES: I dont think so either.

The CHAIRMAN: Mr. Mansur started by saying that there were more outlets. That I can understand. We can all understand that, as against the number of outlets that the trust, life and other companies have, the banks have approximately, 4,000 against 126. That he knows and we know, but when you start talking to him about rediscounts and Acts that have not been proclaimed, surely that is a matter for the finance department.

Mr. TUCKER: On a point of order, Mr. Chairman. I cannot agree with your ruling. I understood we were to go over this systematically. I know Mr. Tucker is going away, but I do not think we should lose our place—
pages 1 to 7.

The CHAIRMAN: Mr. Thatcher, I put it before the committee, we will be glad to accommodate you under similar circumstances. Mr. Tucker has had a broad interest in financial matters over a great number of years, and the committee is entitled to the benefit of his experience and his views on it. I think they ought to have them. We will have the very best witnesses to deal with the financial problems. I do not know whether Mr. Mansur is the best witness on this, as I do not know what he knows about finance.

Mr. POULIOT: With due deference, Mr. Mansur was the one that spoke of the mortgage bank, and he was the manager of that bank, although it was never put into operation.

Mr. MANSUR: I was.

The CHAIRMAN: Order. If Mr. Mansur at this late date feels qualified to speak of the bank that never came into existence.

Mr. POULIOT: I know about it, because I opposed it.

The CHAIRMAN: This is something new to me. If he feels qualified, I am prepared to listen.

Mr. TUCKER: My point is that Mr. Mansur had a part in the procedure I have described of the providing of the machinery to provide necessary money, which he is proposing to do here in another way. What I have in mind is this: If we provided plenty of money through the existing institutions, did he think he would do this under the Central Mortgage Bank Act? If so the question would arise as to whether it would be necessary to guarantee the banks to get them to enter this field. In other words, if we provided plenty of money through the existing institutions and at the same time let the banks enter the field if they wanted to, but enter it without government guarantee. What I want to ask him is, after the careful consideration he gave before 1939 and since, whether it would not have been a wise move to provide plenty of money to the existing institutions, let the banks enter the field without government guarantee and see if you would not get plenty of money without going as far as you are going in this Act.

The CHAIRMAN: Oh yes. But now, Mr. Tucker, you are dealing with government policy, and Mr. Mansur is not the appropriate witness.

By Mr. Tucker:

Q. What I am getting at is this: whether or not it would be possible to get plenty of money in that way. I think the committee is interested in this point: whether it is necessary to give this guarantee to the chartered banks, or whether if you took this other step, plenty of money would not be available.

It was thought in 1939 that plenty of money would thereby be made available. I realize there has been a change since then, in regard to requirement and demand. But we have got along up to now; and if you made this additional change, I am curious to know if we could not get along for another year or so anyway, by providing for the existing institutions getting new money.—A. It is fourteen years ago since the Central Mortgage Bank was established. I might say that the Act was passed and assented to long before I ever knew that I was going to be an employee of the Central Mortgage Bank. Therefore my knowledge of the earlier history is not too good. In the Central Mortgage Bank never was it thought that the life companies would be participants in borrowing funds for new lending. The life companies, neither in the United States or in any other country I know, care to borrow money for the purpose of re-lending. They lend their own funds, but they differ from a loan company, who borrows in order to re-lend.

Therefore the central banking facilities of the Central Mortgage Bank Act were expected to be used only by the loan companies and some of the trust companies. Now the suggestion is made that, by a combination of such an arrangement, the same purpose as bill 102 might be achieved. I am not sure. I think that Mr. Tower's view on this would be better than mine. But I would like to point out, however, that were this done, the lending institutions, failing the provisions of bill 102, would be limited to a 60 per cent loan. Just how long this would meet the need, I do not know.

There has been quite a lot of discussion in recent weeks about the desirability of low down payments. If the provisions of bill 102 are removed, then we fall back upon the limits set in the Trust and Loan Companies Act, and in the Insurance Act, which is 60 per cent.

Mr. MACDONNELL: But you would still have the combined loan available, even if this Act were not passed; I mean the 75-25 per cent arrangement.

The WITNESS: True, but I did not think that the question contemplated the extension of the present Housing Act.

By Mr. Tucker:

Q. It would make new money available so why could you not make it available to the existing institutions?—A. 95 per cent of the loans made under the National Housing Act are presently being made by life companies.

Before I came to the Central Mortgage Bank, I used to work for a life company. I think the practice in other countries and their attitude in Canada is the same, namely: that they are not interested in securing funds from a central bank for re-investment in the mortgage field. In other words, they would be unwilling to assume agency position.

If this opinion is right—and I think it is—then I would think that the suggestion made by Mr. Tucker might work quite well, but would be limited to 5 per cent of the field of activity under the National Housing Act.

I think the balance of the question is a mixture of central banking and government policy, and I am not very good at either one of them.

Q. I thank you Mr. Chairman for permitting me to raise the point.

The CHAIRMAN: Gentlemen, we have had a good morning. I apologize to those of you I was unable to call on today. But I assure you that you will have an ample opportunity at a later date.

As I have already indicated to you, starting on Tuesday next, we shall try to get better accommodation and at the same time try to hold two meetings a day. We must do that, because there is an urgency about this bill, getting it through the committee and through the House, so that loans may be available for spring building.

Until Tuesday, February 9 at 11:00 a.m. the committee now stands adjourned.

Canada - Banking and Commerce,
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

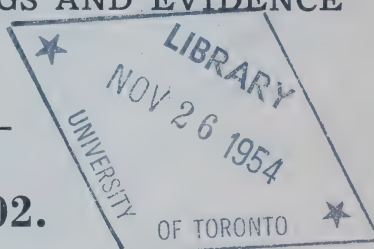
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

TUESDAY, FEBRUARY 9, 1954

(Morning Sitting)

WITNESS:

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

STANDING COMMITTEE ON BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*,

and Messrs.

Adamson	Fleming	Michener
Applewhaite	Follwell	Mitchell (<i>London</i>)
Arsenault	Fraser (<i>Peterborough</i>)	Monteith
Ashbourne	Fraser (<i>St. John's East</i>)	Nickle
Balcom	Gagnon	Noseworthy
Benidickson	Hanna	Philpott
Bennett (<i>Grey North</i>)	Hees	Picard
Blackmore	Hellyer	Pouliot
Boucher (<i>Restigouche- Madawaska</i>)	Henderson	Quelch
Breton	Huffman	Robichaud
Cameron (<i>Nanaimo</i>)	Hunter	Rouleau
Cannon	Johnston (<i>Bow River</i>)	Stewart
Cardin	Low	(<i>Winnipeg North</i>)
Crestohl	Macdonnell	Thatcher
Croll	MacEachen	Tucker
Dufresne	Macnaughton	Weaver
Dumas	Matheson	Wood
	McIlraith	

ORDERS OF REFERENCE

MONDAY, February 8, 1954

Ordered,—That the name of Mr. Johnston (*Bow River*) be substituted for that of Mr. Blackmore on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, February 9, 1954.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Arsenault, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hees, Hellyer, Huffman, Hunter, Johnston, Low, Macdonnell, Macnaughton, McIlraith, Michener, Mitchell (*London*), Monteith, Noseworthy, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Thatcher, Weaver, Wood.

In attendance: The Hon. Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation, and Mr. J. A. Macdonald, of the Economic Policy Division, Department of Finance.

The committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

In answer to a question asked by Mr. Thatcher at the previous meeting, Mr. Mansur made a statement on *housing need*, and was questioned thereon.

The committee then resumed the examination of the witness on the statement presented by him on February 2.

(*See Minutes of Proceedings and Evidence No. 1, Tuesday, February 2, 1954*)

At 12.50 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 9, 1954

11.00 a.m.

The CHAIRMAN: I see a quorum. At the last meeting Mr. Thatcher asked a very pertinent question.

Mr. FLEMING: Was it pertinent or impertinent?

The CHAIRMAN: Pertinent; the same question Mr. Fleming said he would ask when he was speaking on the bill in the House. The question is: What was the amount of the backlog of houses in 1945 and what is the present backlog? That question, I thought, required an extensive answer, and I asked Mr. Mansur to be prepared to answer it today. He has a statement and you have copies of it.

Mr. HUNTER: Not yet.

The CHAIRMAN: I will ask you to let Mr. Mansur read his statement, and after he has finished you will be able to question him on it. Last week we dealt with the operation of the Act, and there were some questions asked on the source of mortgage funds. I suggest that when you are questioning Mr. Mansur today you deal with both of those subjects, leaving the details of the bill alone until you have exhausted both of these matters. I will have Mr. Mansur read his statement, and then the questioning will follow.

**Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation, called:
The WITNESS:**

HOUSING NEEDS

The term "housing shortage" has become commonplace through persistent usage during recent years. I am never sure just what is exactly meant by "housing shortage". It seems to me that the concept of housing shortage is subjective, depending largely upon the opinion of the observer. Presumably housing shortage represents the difference between the housing we have and the housing we should have. The housing we have can be measured fairly accurately and ready agreement reached. But the housing we should have depends upon standards of adequacy determined by someone or some group of people. Therefore there can be a large number of perfectly sensible but widely different opinions as to the size of a housing shortage. I believe that everyone who thinks about this subject develops some kind of a personal notion as to what constitutes satisfactory housing accommodation. In the course of my duties I meet many people genuinely interested in the matter and I encounter a wide variety of opinion. One of my associates suggests—"pick a number between zero and one million and I will find someone to defend that number as the Canadian housing shortage".

One person might insist that there is no housing shortage on the grounds that no one in the country sleeps on a park bench. This view is usually accompanied by the belief that there should be no meddling with the dispensation of the market in respect to the number of dwellings we have or the number which are added from year to year. Another person will argue that

our present stock of housing is deficient to the extent of the 377,000 families not maintaining their own household. A third will take the position that in addition to this number a further 400,000 units must be added to replace those houses described in the census as in need of major repair. A fourth will go even further and hold that this aggregate need of 777,000 houses must be supplemented by adding to it every house lacking modern conveniences of hot and cold running water, inside flush toilet, bath and shower. We might even find people who go beyond this point and add to this rather substantial accumulation the number of units which seem undesirable because of their location or architectural construction. These judgments or any combination of them may be sincerely put forward by people in defining the housing shortage. The opinions vary according to their lights and philosophical preferences.

My remarks to this point, Mr. Chairman, would indicate a certain amount of evasiveness so I hasten to assure you that I will make some observations about the backlog or need for housing beyond current needs. Later I will express an opinion in numerical terms.

Although there is little chance of agreement on the size of the Canadian housing shortage in terms of dwelling units, I think that most reasonable people would agree that there is some general backlog of housing requirements. In assessing housing need, conclusions are most often drawn from (1) the amount of doubling up or multiple occupancy, (2) the number of persons per room, and (3) the quality of the housing stocks. None of these approaches is accurate but they do provoke some thoughts upon the size of the so-called backlog of housing.

A.—Doubling-Up Approach

At the present time there are in Canada about 3,536,500 families and 465,000 non-family households. Non-family households is the term for non-family groups who occupy dwellings. The number of non-family households reflects the extent to which the non-family population makes claim upon the existing dwelling stock. A combination of families and non-family households reflects the total number of social units to be housed.

Projecting the 1951 census, it is estimated that presently 4,001,400 households in Canada are housed in about 3,624,500 occupied dwellings. Therefore, there is an excess of 376,900 families and non-family households over the number of occupied dwellings. The excess represents about 9.4 per cent of the total of families and non-family households to be housed.

Limitations of the Doubling-Up Approach

This excess figure representing a measure of doubling-up or multiple occupancy, is often regarded as a kind of housing deficit or shortage or backlog of need that should be made good. I think that the concept is useful as a general indicator, particularly in respect to changes, but should not be used as an absolute measure of housing shortage.

Firstly, it makes no allowance for the quality of the housing stocks. Some of the occupied dwellings are in serious disrepair and some lack basic facilities. To measure a housing backlog solely on this excess takes no account of requirements attributable to the shortcomings in the quality of the housing stock itself.

Secondly, the excess of families and other household units over occupied dwellings indicates nothing about the size of the dwellings in the housing stock. Doubling up in a ten room house is a very different matter to doubling up in a two bedroom bungalow. Doubling up does not in all cases mean distress. On the other hand, sole occupancy of a separate dwelling by a family does not necessarily denote satisfactory housing conditions—for example, the case of a family of ten in a house of four rooms.

Thirdly, this concept of excess families makes no allowance for voluntary doubling up. It would be a most prodigal definition of housing requirements if no allowance were made for some element of voluntary multiple occupancy. The voluntary character of multiple occupancy is difficult to determine. Central Mortgage has tried surveys in an attempt to determine the proportion of multiple occupancy which was voluntary. The question as to the nature of multiple occupancy when asked of a family, seemed to be loaded with social connotations sufficient to make the answers unreliable. The 1951 census however, indicates that of the families not maintaining their own household, about two-thirds of them were doubling up with relatives and the remainder with non-relatives. Which kind of congestion reflects the greater misfortune I do not know.

Change in Situation, 1941 to 1953

Excluding Newfoundland, there were 364,700 families not maintaining their own household in Canada at the end of 1953, or 9.3 per cent of the total of families and non-family households. In 1941 the corresponding figure was 7.5 per cent. Most of this increase took place in the years 1941-45 with a substantial addition in 1946 due to repatriation. We estimate that the figure rose to 9.7 per cent at the end of 1946. Since then there has been some improvement statistically and considerable improvement actually. As evidence of the improvement I would point out:

- (a) In 1946 there were acute cases of housing need in practically every community in Canada. Emergency shelters to look after 11,000 families were arranged in cooperation with the municipalities. Most of these emergency shelters now have been closed.
- (b) There seems to be less municipal worry about the cases of acute need and the interest by the municipalities seems to have moved to the chronic situation.
- (c) Central Mortgage hears a lot less of individual housing troubles.
- (d) The applications for veterans' rental units have dropped from some 60,000 to some 18,000.

The real improvement, in my opinion, has been due to:

1. The very large number of new housing units that have been built. In the early years following the War these houses were generally occupied by veteran families coming out of multiple occupancy. In 1947 we did some studies of typical N.H.A. units in respect of the number of incoming families who left self-contained housing units when they moved. In 1947 this filter process was working to the extent of about 38 per cent. In 1949 it had moved to 46 per cent. In 1951, 62 per cent of the families occupying new small houses had come from a self-contained housing unit.

2. Immediately after the end of the war we had a very volatile population who, in reestablishment, were moving from one part of the country to the other. The population has become more stabilized in location and as a result, our existing housing stock is being used more effectively.

3. Many of the families who had the most acute housing needs in the immediate postwar years have looked after their needs.

4. I have a theory that the increased demand and use of consumer durables of all kinds has made a number of families less selective about their housing accommodation. I think that a study of the number of automobiles and television sets that belong to houses in need of major repair, or without running hot and cold water, or occupied by more than one family would indicate that the occupants have exercised their right of choice in the manner in which they wished to spend their money.

In Greater Montreal, we find about average multiple occupancy and about an average number of sub-standard units. In the issue of the 'Montreal Star' of the last Friday of January, 1946, there was one-eighth of a column of rental accommodation advertisements. In 1948 there was one-third of a column; in 1950 there were four columns; in 1952 there were five columns. On the same date in 1954 there were seven columns.

To the extent that there is a backlog of housing need, then it is certainly present in Montreal. It might be suggested that the housing need is there but the incomes are not commensurate with the market level of rentals, and that real housing need can only be met with rental units at rentals lower than the market. In Montreal there is no way to prove whether this is so because there are no subsidised rental projects under section 35 in that city.

However, we might consider Saint John, New Brunswick, with conditions not unlike Montreal—somewhat less multiple occupancy but a higher proportion of substandard accommodation. To meet housing need the province, the city, and the federal government entered into a subsidized rental project of 288 units. The units are well located not far from the centre of the city. Because it is a subsidized scheme the rents are based, by formula, on a percentage of income. A man and wife and two children can secure a three bedroom, row housing unit, brand new with every modern convenience, for 20 per cent of their income. Therefore, if such family earns \$175 a month, then the rental is \$35 a month. Certainly the apparent housing need in Saint John measured by the usual yardsticks of multiple occupancy and substandard units would indicate that 288 units of this kind were merely scratching the surface of the real problem, particularly in a city which itself feels that there are about 2,500 units subject to condemnation.

What is our experience in Saint John? At the moment there are 70 vacancies. I believe that the reasons are (1) that people like to spend considerably less than 20 per cent of their income for rent (2) people like to stay in areas in which they have lived for some time, notwithstanding the fact that their housing accommodation may be unsatisfactory. However, my object is not to get into the pros and cons of public housing but rather to point out that we probably could have estimated a need for and ready occupancy of 2,800 subsidized units for the city of Saint John had we used a combination of the multiple occupancy and substandard housing concepts.

I have tried to indicate to the committee that whereas the gross amount of doubling-up may be a useful yardstick, it should be used with the greatest of caution because much of it is voluntary. I would like to be able to tell the members of the committee as to what part of the 9.4 per cent excess of families over houses is indeed a measure of real backlog of housing need. I cannot do so and I would view with some suspicion any rationalisation of the proper use of multiple occupancy figures as they relate to housing need.

Before I leave multiple occupancy I would like to bring to the attention of the committee one further example. During the war years the town of Pictou, Nova Scotia, had a ship-building yard. In order to accommodate war workers, Wartime Housing built 400 units to rent at \$23 to \$30 a month. The war came to an end and so did the ship-building activity. Conversations took place with the municipality as to how many of these houses should be retained in Pictou. As a result of these negotiations we moved 114 houses to other areas and the municipality purchased the remaining 286 houses of which 70 were vacant. I recite these circumstances to indicate at least one place in Canada where lack of housing was not a problem in recent years.

Turning now to the 1951 census figures for Pictou, we find that multiple occupancy as defined by the census was 85 per cent of the national rate. At the time of the census there were eleven of these houses vacant to be rented

at \$22 to \$30 a month. It would seem that the multiple occupancy in Pictou was not because houses were not available, nor because rentals were too high, but rather that the multiple occupancy was voluntary in character.

I hesitate to use this figure in such an obvious way, but one interpretation placed on it might lead to the conclusion that total multiple occupancy might be reduced by 85 per cent to arrive at an estimate of involuntary multiple occupancy. If this reasoning were good, then the 377,000 cases of multiple occupancy nationally, might be reduced to 56,000 cases of involuntary multiple occupancy. This in my opinion would be an understatement and shows the danger of an arithmetical approach. However it does indicate that a large part of multiple occupancy is voluntary and for that reason is not part of the housing need.

B.—Living Space per Person Approach

The average number of persons per occupied dwelling in Canada, excluding Newfoundland, declined from 4.47 in 1941 to 4.07 in 1951, despite the increase in doubling-up that occurred during this period. In the same period the size of Canadian families declined from 3.9 persons to 3.7 persons in 1951. The average number of persons per room declined from .78 to .75 between the censuses.

Although these figures indicate an improvement, I do not think they should be used too literally and I feel that they have little use as a yardstick in determining housing need. Housing need relates generally to households rather than to persons.

C.—Structural Conditions and Amenities Approach

Another indication of the overall housing situation, and of backlog requirements is to be found in data on the structural conditions of the housing stock and the availability of modern living conditions.

The occupied dwelling stock in 1951 included 458,000 units, or 13.4 per cent of the total, which were in need of major repairs. Of the total occupied stock, 886,000 units, or 26.0 per cent lacked inside running water, 1.2 million or 36 per cent were without exclusive use of inside toilet, and 1,471,200 or 43.2 per cent were without exclusive use of bath or shower. It should be borne in mind that one cannot add all these units together to come to a total of dwellings that are not up to standard, since many dwellings are included under all four deficiency counts and many others under more than one of the counts.

The distribution of substandard dwellings by area is very different from the distribution of families not maintaining their own households. The incidence of structural disrepair and lack of conveniences is most pronounced in areas of low population density whereas the incidence of doubling-up was highest in the urban areas where the rate of population growth has recently been high. For example the need of structural repair was evident in respect of 20.2 per cent of the rural dwellings in Canada and 9.5 per cent of the urban dwellings. Inside running water was lacking in 60 per cent of rural dwellings and 5.9 per cent of urban dwellings. A wide spread between rural and urban areas is evident also in the incidence of dwellings without the exclusive use of toilet or bathing facilities.

The high rural incidence of disrepair and lack of amenities is related of course to the relatively advanced age of farm dwellings, and to the lack of municipal sewer and water services in areas of low population density. A substantial amount of the deficiencies on these accounts can be made good by a programme of major improvements and alteration of the existing stock of dwellings. Progress has been made in this respect. The number of dwellings in need of major repairs declined from 696,000 or 28 per cent in 1941 to 451,000

or 13 per cent in 1951. Dwellings lacking inside running water declined from 1,017,000 or 40 per cent in 1941 to 835,000 or 25 per cent in 1951. These comparative figures exclude Newfoundland.

Rural areas, and particularly farm areas, showed greatest improvement in these respects, principally because these areas suffered more from structural deficiencies and lack of conveniences to begin with. For every five rural houses designated to be in need of major repair in 1941, there were only three in 1951. For every three farm houses lacking inside toilet facilities in 1941 there were only two in 1951. While these comparisons are affected to some extent by the change in the definition of a dwelling from one census to the next, and by the redesignation of areas between farm, rural non-farm, and urban, they do show that in addition to adding to the stock, Canada has been improving the quality of the housing stock over the past ten or twelve years.

Although some of these substandard units should be included in any estimate of a backlog of housing need, I believe that for most of them repair and improvement, rather than replacement, is the practical and economical course of action.

Conclusion

After all these comments on the three most usual ways of measuring housing need, I am sure that the members of the committee expect some conclusions to be drawn. In my view there is a backlog of housing need over and above houses required for current needs and my concept of backlog of housing need is the sum of

- (a) Occupied units which are substandard beyond repair and improvement,
- (b) The number of families whose resources are insufficient to secure new or existing housing on a rental or a home ownership basis whether these families are now sharing accommodation or have the sole occupancy of units at rentals beyond their means,

and does not include housing units which can be brought to a reasonable standard by repair and improvement. Numerically the backlog probably is in the range of 75,000 to 200,000 units, depending upon one's attitude to the many considerations involved in assessing such need. I suggest this range because I feel that any person with experience in the housing field could refute arguments that the backlog of housing need was outside this range. If the question were, how many families would move from their present quarters because of multiple occupancy or because the unit was substandard, if they could get housing accommodation at say 16 per cent to 20 per cent of their gross income, my answer would be at the lower end of the range which I have suggested. If however, the question was, how many families should leave their present accommodation for other accommodation at reasonable rents, then my answer would be at the upper end of the range.

By Mr. Thatcher:

Q. Mr. Chairman, I do not think that Mr. Mansur has fully answered my question. He has estimated the backlog at the present time, but he has not suggested a comparable figure for 1945. I wonder if he could do that now?—A. Mr. Chairman, I do not think I can, and the reason is this: although figures are available for the end of 1945, I do think that there is any good estimate of a backlog at that time.

At the end of 1945 I was not directly associated with the housing business, and Mr. Thatcher, I would have the greatest trouble putting a proper inter-

pretation on the figures which are available as at the end of 1945. I have no feel of those figures and for that reason I really do not think that my opinion would be of much value to this committee.

The CHAIRMAN: I realize that many of you at the last meeting wished to ask questions, and did not have the opportunity. If you will indicate to me or to the clerk in some way that you wish to have the floor we will see that it is made available to you.

I am wiping the slate clean, and forgetting the list I had left over from the last meeting. The list I have is: Mr. Johnston, Mr. Hees, and Mr. Thatcher.

Mr. JOHNSTON: There are a few questions I would like to ask with respect to the Building Code, construction standards and the inspections.

The CHAIRMAN: We cannot hear you. You will appreciate that this is a room where the acoustics are not very good. If you will stand up it will be easier to hear.

Mr. POULIOT: Now that the hon. Minister of Public Works is here I would ask him why does he not put draperies on the walls to improve the acoustics?

Mr. FLEMING: Before Mr. Johnston proceeds, I gather his question is about the matter of the inspections. We had a new question introduced this morning, this matter of the backlog. Will it not be better to finish that up first?

By Mr. Johnston:

Q. This was a question Mr. Mansur answered from last day and I was just indicating I had been somewhat critical of housing under the N.H.A. in years past. The criticism has always been based on two things: first the code and standards, and second the inspections. In my judgment as far as housing is concerned I think most of the trouble in national housing or in any other types before the National Housing Act came in, was due mostly to inspections and in following the code.

I want to ask a question here referring to a question given to Mr. Mansur on page 44 of the committee report. It was a question asked by Mr. Stewart:

That means that your own inspection staff will be doing a full time job from the point of view of the corporation itself, to protect the investment, and from the point of view of the owner of the house, to protect his investment?—A. That is correct.

Now as I look on further in the proceedings I find that is contradicted. May I say at this point that if that first statement which I have read of Mr. Mansur's is correct I would be most happy because I think that is one of the faults we have had up to now. But, on page 24 that is not according to the Act because he gives there on page 24, No. 3, about the middle of the page "the arrangements with the contractor and the fulfilment of the contract are the sole responsibility of the applicant and not that of the lender or Central Mortgage".

Now, I would like to have that one point cleared up, and then I can go on to the next one to see what purpose the inspection had.—A. Practically the inspection is for the protection of the mortgagee. To the extent that the inspections are well done, then I believe that some benefit does accrue to the home owner. Therefore I would think that if the general level of inspection were improved then the position of the prospective home owner would be improved.

In answering the question at the last meeting of the committee, I think it was Mr. McIlraith who pointed out the inconsistency of the first reference on the practice in the past with the preliminary statement which I gave to

the committee. I was glad to have that correction because in that statement which you have just quoted I am sure I gave a misinterpretation.

Perhaps I could say this, that as in the past there is to be no contractual responsibility by those doing the inspections to the home owner. If, on the other hand, the inspections are improved and raised to a higher level, then the home owner will indeed receive some benefit from such improvement.

Q. Then I take it that your statement on page 44 is not correct and that the inspection is not to protect the investment of the home owner, primarily at least?—A. Primarily no, but as a by-product I think yes.

Q. I think I can see your point there. Now, how many inspectors are there? Central Mortgage and Housing has one to protect their own investment?—A. Yes and no.

Q. Am I wrong in that?—A. At the moment for joint loans the inspection is done by the inspectors of the lending institutions. In the case of direct loans the inspections are done by employees of Central Mortgage. In both cases in the interests of the mortgagee. Under the new Act as contemplated by Bill 102 all compliance inspections will be made by the employees of Central Mortgage.

Q. What do you mean compliance inspections?—A. Inspection to ensure that the work and the materials comply with the standards and the plans and specifications.

Q. Then may I ask—

The CHAIRMAN: Just one minute, please. Let him finish his answer. You were saying "will be done by the Central Mortgage and Housing Corporation."

The WITNESS: Yes.

Under the arrangements contemplated in Bill 102, all compliance inspections for every loan under the National Housing Act will be carried out by Central Mortgage.

By Mr. Johnston:

Q. I may say to Mr. Mansur I think that is a great improvement and I think will ensure better inspections. But when speaking of compliance inspections you said that the inspection would be to see that the proper materials were used and were according to the standards. What standards did you have in mind?—A. The standards prepared by Central Mortgage and Housing Corporation which are a condition of the loan, under the National Housing Act, being made.

Q. That set of standards which are put out by C.M.H.C. must be followed; am I right? They must be followed by the contractor?—A. That is correct; with reasonable tolerance.

Q. Well now, in view of the fact that Central Mortgage and Housing must approve the plans and specifications—that is correct?—A. That is correct.

Q. And you have an inspector there—a compliance inspector—to see that the proper material and building requirements of Central Housing and Mortgage are carried out. Would not that in itself then say that the inspector from Central Mortgage, without limitation as far as those points are concerned, must see they are carried out?—A. Subject to human error, Mr. Johnston.

Q. I agree there may be a small deviation, but no material deviation.—A. It is planned that there will not be material deviation.

Q. I mean unless there is approval with the owner, lender and the corporation?—A. We would anticipate that the houses generally would be built to the plans, specifications and standards as required by the Act.

Q. Could it not be assumed, or is not it assumed, that when a man is going to buy a house and he submits the plans and specifications to Central Mortgage and Housing, and Central Mortgage and Housing has an inspector in to see that these are carried out, that this building then should be built according to those specifications, and the owner has every right to expect Central Mortgage and Housing through their inspector to see that the house will be built according to the code and the plans and specifications, is that right?—A. No, that is not right. The contractual relationship, in respect to fulfilment of the terms of the contract, remains one between the owner and the builder. I think that what you are suggesting is full architectural inspection. Full architectural inspection cannot be done, as I mentioned the other day, for much less than \$300 a house. Even then, the owner is not fully assured that every single item will be strictly in accordance with the plans and specifications. The inspections which it is contemplated will be done under bill 102, will reasonably ensure that the house meets the plans and specifications but will not be the equivalent of full architectural inspection, and the responsibilities which flow to the owner from the architect when he is being paid a fee for full architectural inspection.

Q. Well, you see, I think that is where a great deal of confusion and dissatisfaction has resulted. When a man comes to get a house from Central Mortgage and Housing Corporation, he is of the impression, in fact he is told, that this house must be built according to the specifications laid down in the plans and specifications and according to the building standards of Central Mortgage and Housing, and then when the home is under construction, or anything happens—the contractor may become bankrupt or be stopped because of faulty building—and then when the owner comes to say, “well here, my investment is not according to specifications,” Central Mortgage and Housing simply washes their hands and say, “That is not our responsibility,” yea, when the builder is applying for his application, he is handed one of these books, “Building standards” and it shows the minimum required for planning, construction, and the materials under the National Housing Act. And then, down here in the section it says, “it is imperative that every borrower examine these standards, and when he examines,”—I am not critical of the standards, mind you, I think they are quite good, and I have gone over them very carefully, and if a house was built according to the standards laid down by Central Mortgage and Housing, I do not think we would have much difficulty, but just the very point, Mr. Mansur, that you made in my judgment, is where the fault lies: that people are given the impression that they are going to get a house built by the standards, supervised by Central Mortgage and Housing, and then when any difficulty arises they are told, “Well, it was not...”

The CHAIRMAN: Mr. Johnston, do you mind giving the witness an opportunity to get a word in?

Mr. JOHNSTON: No.

The CHAIRMAN: Give him a chance to answer the question.

Mr. JOHNSTON: Yes, but I would like him to explain that.

The WITNESS: Mr. Johnston, I think you said that we indicated to the borrower that we would be responsible to see that he got a house in accordance with this. I have in front of me a copy of the application which is signed by every borrower and has been for the last five years, and it is contemplated that this clause will be carried into the new application. It is headed, “Important—Warning to Borrowers,” and it reads: “Borrowers must make their own arrangements with the builder and must not assume that their interests have been or are being looked after by Central Mortgage and Housing Corporation, or the lending institution making the loans. Borrowers must make their own arrangements with the contractor and see that the house is built according to

the plans and specifications which have been agreed upon between the borrower and the contractor. This is a warning to borrowers and purchasers that they must make their own contract with builders and look after their own interests and inspections in the building or acquisition of a home."

Mr. JOHNSTON: Yes, I quite understand that was on the form and I also can understand, and I think you will agree, that these standards were given to almost every prospective home owner, but of these, which will he take advantage of? This is a book which is headed in good large type. The other is on a form that has small print which a good many people never look at.

The CHAIRMAN: It is in extremely large print.

The WITNESS: It is in very large type, Mr. Johnston, and immediately adjacent to the place where every applicant signs his name.

Mr. JOHNSTON: Then, what is the use of giving out these?

The WITNESS: Because they were required by the builders; and there are a great many builders, Mr. Johnston, who sincerely try to live up to the plans and specifications and these builders require the specifications and need the books which they must follow. Like any other arrangement, there are cases of non-compliance and there are cases of compliance far beyond the requirements contained in that booklet. I do not think that the majority of builders try to give a product which is below the standards required. I agree that there are some builders who do not do a very good job. In my remarks in the preliminary statement, I tried to indicate that one of the reasons for Central Mortgage taking over the compliance inspection was to improve the quality in the overall, and introduce a uniformity that had not been present up to this time. But Mr. Johnston, I do not want to give you the impression that I am defending the position that every inspection in the last eight years has been perfect—I know it has not been.

The CHAIRMAN: Will you, Mr. Johnston, please identify that book for the record?

Mr. JOHNSTON: It is the "Building Standards" put out by Central Mortgage and Housing.

The CHAIRMAN: And the date Mr. Johnston?

Mr. JOHNSTON: It was put out in the Act of 1944. There is no date on which it was printed, but it is the regular book.

The CHAIRMAN: Thank you, I just wanted it for the record.

Mr. JOHNSTON: And mind you, I agree that the standard Mr. Mansur has set in regard to that is perfectly correct, and I agree with him, that when a house is built properly and you have a good contractor and he follows the standards you have a resulting good house, but the difficulty comes in when the builders do not follow the standards and therefore, I think Mr. Mansur, we should make every effort to see that every proper inspection is done. In my view Central Mortgage and Housing is the one who can best do that without any additional cost. It is nonsensical, and I think you will agree it is nonsensical, to have three fully qualified inspectors on one house—Central Mortgage and Housing has one, the builder has one, and the lending institution has one—and now, if the proper instructions are carried out the owner will have to have one. Now, let me come to another point I have in mind. Mr. Mansur, in regard to the proper inspection of these houses by Central Mortgage and Housing, these other inspectors, the costs are added into the price of the building. Now, on page 23, at the bottom of the page you referred to an application fee—that is the very last sentence—"at this stage an application fee of \$35 is collected from the applicant." What does that fee mean? I think if it has just slipped your mind I can remind you of it.

The WITNESS: Under the arrangements contemplated by Bill 102, Central Mortgage must do the site inspection and appraisal of the plans and specifications, a review of the plans and specifications to ensure they meet standards. We anticipate carrying out six or seven inspections. We must also advise the approved lender of the amount which can be advanced on a progress loan at the stage we examine the house. These are the services for which a fee is being suggested. Now, Mr. Johnston, if you will go back a little further in the evidence, just before I entered the hypothetical example, you will notice that I was very specific in saying that these matters are one which are determined by the Governor in Council and all I was doing was guessing. The fee may be \$3.50, \$35 or \$350; that is a matter for the Governor in Council to determine.

By Mr. Johnston:

Q. I think, Mr. Mansur, you have cleared up that point a little more, because when you were speaking at page 23 my interpretation of what you said had to do with the inspection of the owner's financial position, that is, whether he was financially able to carry this load or not, whether the proportion he would have to pay was commensurate with the income that he had. My conclusion came immediately that all these inspections were entered on behalf of the loaning institution to ascertain whether or not this man was financially able to carry this burden, and therefore, of course, I would object to that, because that is an added cost which should have been borne by the lending institution itself.—A. Mr. Johnston, it is not contemplated that the loaning institution shall receive a fee for credit examination.

Q. I was just asked to clear up the question of whether or not the Governor in Council follows the recommendations made by Central Mortgage and Housing Corporation.

The CHAIRMAN: You could have saved that one.

Mr. JOHNSTON: I would think that in general they would, because the Governor in Council means our friend sitting right there at the table.

The CHAIRMAN: Does that complete your examination for the moment, Mr. Johnston, because I have a large list here if you have finished?

Mr. JOHNSTON: Yes, I do not want to take too much advantage of being the first one to question Mr. Mansur, but I have several more questions which I will ask at a later time.

The CHAIRMAN: Gentlemen, will you please try to confine yourselves to the statement that was made by Mr. Mansur. I have a long waiting list: messrs. Hees, Thatcher, Robichaud, Fleming, Macdonnell, Hellyer, Crestohl and Weaver, and I will start now with Mr. Hees.

Mr. HEES: Mr. Chairman I would like first to suggest that at the next meeting we might get back to the more friendly and intimate atmosphere of Room 430. I think this a big barn and not conducive to committee work, and I think everybody else thinks about the same. I think we were doing very well in 430. There you could speak sitting down, but here you have to get up to make a speech.

Mr. HUNTER: But it was like a Turkish bath.

Mr. HEES: When Mr. Mansur was giving his version of the housing backlog, it seemed to me—I may be wrong—but it seemed to me that he was assuming that most people who are doubled up like to be doubled up. In my opinion—

The CHAIRMAN: Gentlemen, I was rather lax this morning and permitted Mr. Johnston to deliver a fairly good speech to the committee.

Mr. JOHNSTON: It was not a speech.

The CHAIRMAN: It was not one of your better ones, but it was fairly good. The purpose of the committee is to question the witness. I have great regard for the opinions of all the members, but it is not the purpose of this hearing to put them on record, it is to hear questions and answers and as a result of these answers you may think of other questions—that is quite in order—but leave your opinions for the floor of the House.

Mr. HEES: I understand, Mr. Chairman, that we are trying to get things ironed out, to toss the ball back and forth.

The CHAIRMAN: Question and answer.

Mr. HEES: Perhaps I am giving my answer.

The CHAIRMAN: But you should not. That is for the witness.

By Mr. Hees:

Q. I will put the question then. Does Mr. Mansur consider that most people who are doubled up today are doing it because they are willing to do it or because of necessity, because of the housing shortage?—A. Mr. Hees, in the statement I made this morning I tried to indicate the extreme difficulty in sorting out voluntary from involuntary multiple occupancy. I drew one or two rather extreme examples and then disowned them. I would guess—and it is not much more than a guess, or perhaps a feel—that about two-thirds of the multiple occupancy reflected in the census was of a voluntary character. I do not think I could really substantiate that figure, but if you go through the multiple occupancy figures you will see heavy weighting for young people, young couples, and elderly people. Remember that in the multiple occupancy figures every mother that lives with her daughter or son is shown as multiple occupancy. Likewise, every young married couple who still live with their family, who have not a house of their own, are also shown. Therefore, I should think that something of the order of two-thirds might be voluntary.

Q. Well, Mr. Chairman, I thank Mr. Mansur for his answer. In my riding this is a tremendous problem, and I find that practically universally there people do not want to live doubled up, because it causes such a tremendous amount of family upset: the parents want to move the children in; the children do not want to stay with their parents, and everybody wants a home of their own if they can get it, no matter how simple. A year ago, based on the Curtis Report on the shortage of housing—I make mention of this because it appears to have been a thoughtful and authoritative report, which was government sponsored—and using the figures that they used to arrive at their figures, giving the needs for eight years and going to the end of last year, I would like you to comment on these figures. On page 12, clause 17, of the report of the Advisory Committee on Reconstruction which is known as the Curtis Report, Housing and Planning subcommittee, dated March 24, 1944, we find that the total urban housing backlog in 1944 was estimated to be 320,000 units. Now, since that year we have built—these are the government's own figures, from the Dominion Bureau of Statistics—since that year we have built 663,500 new houses, that is from the end of 1944 to the end of 1952. These are your own figures. We have 663,500 new houses built between 1944 and 1952. You will find that figure checks, when you check with the Dominion Bureau of Statistics and—also from the Dominion Bureau of Statistics figures—we added 710,400 net new families to Canada's population. That means that our backlog of housing—and I am assuming that each new family wants a new house, because in my opinion they do, and every day I talk to young married couples and they want some place they can move into and be alone—that means that our backlog of houses has increased by 46,900 during the past eight years between the end of 1944 and the end of 1952. This figure, however, does not take into account the number of new houses needed to replace those which

have become useless through obsolescence. On page 12, clause 19, of the Curtis Report, this figure is estimated to be 13,900 houses per year. Therefore, between 1944 and the end of 1952 the total number of houses which should have been replaced and were not amounted to 121,500. Adding this figure to the 320,000 backlog accumulated prior to 1944 and to the 46,900 surplus of new families over house construction between the year 1944 and the end of 1952, we arrive at a total backlog of 488,400 or, say, 500,000 houses.

I think that is a considered figure based as made on a calculation that the people who met, who sat and worked out the Curtis Report used, and therefore I believe that we have a housing backlog today of well over $\frac{1}{2}$ million, instead of 75,000 or 200,000.

The CHAIRMAN: Mr. Hees, you say that you believe such and such. Let us hear what the witness believes.

Mr. HEES: I am only giving him my belief, Mr. Chairman.

The CHAIRMAN: No, Mr. Hees. You should present your facts and ask the witness for an opinion on them. You should ask: "What have you to say about it?", and then we shall listen to his conclusion.

Mr. HEES: Is Mr. Mansur not interested in knowing what I believe?

The CHAIRMAN: We know what you believe, Mr. Hees.

Mr. HEES: But Mr. Mansur perhaps does not.

The CHAIRMAN: I have heard your speech on the floor of the House. Let us hear what the witness has to say.

The WITNESS: Well, Mr. Hees, I hesitate to take exception to the figures contained in the Curtis Report. They, like yourself, Mr. Hees, were conscientious people trying to do a job; and they came to a conclusion based on what I described earlier this morning as their notion of what the backlog was.

I would like to say that if you turn to the next page of the Curtis Report you will find the requirements for the first ten years following 1946. For the first ten post-war years, you will find that the requirements for new housing was 606,000 units.

By Mr. Hees:

Q. That is all an over-estimate.—A. That is correct. There have been about 750,000 units started in the first 8 of the 10 years which, I would think, in itself indicates that the people working on the Curtis Report were labouring under a set of circumstances in which it was very difficult for them to forecast.

And dealing with the figures you mentioned, I think that the estimate of urban backlog, starting with the first figure of 175,000 substandard and slum clearance units is an over-statement.

Q. No, Mr. Mansur. You mean houses not replaced; I said 121,500. They said that they estimated that every year there were 13,500 units which needed to be replaced through obsolescence.—A. In the 320,000 backlog with which they started they have included 175,000 substandard units that needed replacement. I think that is an over-statement.

Q. And on what do you base that opinion?—A. On my observation of what is known as our substandard housing. As I mentioned earlier in my remarks this morning, I believe that a great deal of our substandard housing can be improved and repaired to the extent that it will become satisfactory. But that brings me right back to your view. I tried to qualify my remarks this morning, by saying that everybody has a little different concept of the backlog.

A moment ago you said that the people who were in those circumstances in Toronto all wanted to have new houses.

Q. I said a very great majority, Mr. Mansur, not new housing at all. They do not want new houses because they cannot afford them; I mean the young people. They do not want to live with their parents, and their parents do not want them to live with them. They want to move out and have places of their own, no matter how simple those places may be. And that is why I thought that Wartime Housing was a good thing.

The CHAIRMAN: Mr. Hees! Just a minute. Please let the witness answer the question. Go ahead, Mr. Mansur.

The WITNESS: I think that a projection of figures determined in 1942 and 1943—and that is when a lot of the work was done—is most difficult to bring forward under present conditions. I think it is very much better to start with 1951. The 1951 census shows 377,000 families who are doubled up.

Of those 377,000 families, my guess would be that there might be from 100,000 to 125,000 of them in the class which you suggest. Then we move to the substandard sector. I would think that there might be another 50,000 or 75,000 needing replacement, rather than the 175,000 which is used in the Curtis Report. In the evidence I gave this morning, I think I indicated, quite fairly, that there had been substantial improvement programs taking place in Canada during the last 12 years. And I think that even the authors of the Curtis Report looking at the 1951 census figures might themselves be inclined to reduce this 175,000, if they had a good look at what had been done in carrying out improvements.

Therefore, Mr. Hees, I think that the 320,000 is too high a figure from which to start. I have not been able to accept the projection which you have just given. I do not think however that it changes my opinion. Maybe I would take the 200,000 up to 300,000, but I do not think so.

But I repeat, once again, that I think there are a good many sincere and reasonable answers that could be given to this backlog question. I do not profess to have a final answer on it because, as I mentioned earlier this morning, everybody has his own notions and opinions, and my standards of social consciousness may be entirely too low.

Q. One last question. I think there is no doubt that it is very important to know, as accurately as we can, what our backlog is when planning a housing program. Therefore might it not be a good time for us to have a new Curtis committee so that an up-to-date figure might be obtained as to just what the backlog is today.

The CHAIRMAN: Not another royal commission?

By Mr. Hees:

Q. I am asking Mr. Mansur.—A. Mr. Hees, we are continuously working at this problem. I have given you the ideas of our organization. I think your suggestion for another Curtis commission pretty well removed from day to day operations, would undoubtedly produce figures rather more easily than perhaps our organization, which is faced with realities and uncertainties. It would be very much easier for a group to sit down with the facts and the census figures before them, put them through a calculating machine and come up with a figure which is just an arithmetical answer. I think that my Pictou example this morning indicated clearly how dangerous it was; and that was an arithmetical example.

Q. Well, thank you very much. My opinion is that we should have a new Curtis Report.

The CHAIRMAN: We wish you would reserve your opinions and express them in the proper place, Mr. Hees.

Mr. HEES: I just wanted them to be on the record.

The CHAIRMAN: It is unfortunate that you are attempting to get something on the record that should not go on this record. Now, Mr. Thatcher.

By Mr. Thatcher:

Q. I believe, Mr. Mansur, that the Central Mortgage and Housing Corporation was born back in 1945, was it not?—A. As at January 1, 1946.

Q. And at that time, Mr. Mansur, were you given any indication of what the housing backlog was? At that time did you have any ideas on that subject?—A. Yes. I had some ideas on the subject.

Q. What were your ideas at that time that the backlog was?—A. My ideas were that repatriation was well under way, that we were very short of housing, that the repatriation was causing an excessive movement throughout the country and, therefore, the use of our housing stock was most inefficient, that we needed houses and needed them badly, and that the actual amount of the backlog at that time was beyond accomplishment in one or two years. So the thing to do was to get along with the job and get some houses built. We were at least chipping the backlog of the housing need.

Q. Would you care to give the figure you estimated was the housing shortage or backlog in 1945?—A. I think I can quite truthfully say I never put together a figure in the early days of Central Mortgage because we were pretty busy getting organized and trying to get some houses built. I am not trying to evade this question particularly. I think the backlog in the light of conditions as of January 1, 1946, was greater than it is as of January 1, 1954. Certainly cases of acute need were very much greater. We embarked upon the emergency shelter provisions under the Wartime Prices and Trade Board Order, I would think if one had done an estimate of the backlog or need based on conditions as of January 1, 1946, the answer would have been a figure considerably large than the same figure as of January 1, 1954.

Q. Thank you, Mr. Mansur. I wonder if you will refer to page 4 of the report you gave us this morning. If I read it correctly, you say the families not maintaining their own household in Canada at the end of 1946 were 9·7 per cent and today they figure at about 9·3 per cent?—A. Correct.

Q. Now, would it be a fair statement to say that that measures the accomplishments we have had in catching up the backlog, from 9·7 to 9·3? Those are your percentages?—A. No, I do not think you can say that. I think you can say that the multiple occupancy has lowered from an estimate of 9·7 at the end of 1946 to 9·3, at the end of 1953. I do think that there are other factors to be taken into consideration. I think that the multiple occupancy of 9·7 at the end of 1946 was a very different kind of multiple occupancy than is shown at January 1, 1954. There was a much larger content of the type of multiple occupancy referred to by Mr. Hees at that time than there is at the moment. In my evidence, I tried to make that clear from the analyses of the percentage of new houses occupied by people coming from shared accommodations. Whereas numerically there has been that improvement, I think qualitatively the multiple occupancy as of 1946 was much more acute than it was at, say, January 1, 1954.

Q. Yet the only figures in this report which you have given us percentage-wise would indicate that there has not been too much of the backlog caught up. I would like to go back—

The CHAIRMAN: Wait a minute. Let him answer the question, "that there is not too much of the backlog caught up". You stopped there. What have you to say about that?

The WITNESS: If we could assess the backlog both qualitatively as well as quantitatively I think more improvement has taken place than is indicated by the change from 9·7 to 9·3 per cent. I think that it should be remembered

that in the present 9.3 per cent we undoubtedly have a larger content of multiple occupancy by reason of elderly people having joined their children, and also a larger content by reason of married couples without children having joined their parents. I feel that in looking at the change from 1946 to 1954 we must look at it not only quantitatively but also qualitatively.

By Mr. Thatcher:

Q. As far as quantitatively goes there has been very little progress made since 1945 in taking up the backlog. We must take that from your figures.—A. They are my figures and are my best estimate. I have no further comment.

Q. I wonder if you would comment on the position of rural housing as far as the backlog is concerned? I think you stated at the last meeting only eight houses had been built under the various housing Acts on farms. Would it be correct to assume if that is correct, that the rural backlog is even worse today than it was in 1945?—A. I corrected my statement, Mr. Thatcher, I think when I said eight; I think the number was nineteen.

The CHAIRMAN: You remember, Mr. Mansur, you also told us the number of applications you had at the time. Do you recall that?

The WITNESS: No, I do not recall that.

In 1941 there were 636,000 farm families, and in 1951 the figure dropped to 612,000. The non-family households in the farm sector dropped from 103,000 in 1941 to 73,000 in 1951. The occupied dwellings dropped from 680,000 to 640,000. Now, these figures indicate that in the farm sector exactly the opposite was happening to that which was happening in the urban sector. The lack of housing quantitatively is really not bad in the farm sector.

The figures which I mentioned this morning of repairs and improvements indicate pretty clearly where money is being spent in the farm sector, and in my opinion, being spent very sensibly. As far as Central Mortgage is concerned we have had very little demand from the farm sector for financing new houses. There is a somewhat greater demand perhaps through the Farm Improvement Loans Act and you will notice that they have made loans to assist in the building of new houses. Likewise the Canadian Farm Loan Board have made some loans for that purpose. Then there were the houses built under the sponsorship of the Veterans Land Act. But, if you take the aggregate of all the activities in the rural field post-war, I do not think that they represent a very large effective demand from the rural population for new housing. I think that the reasons for it are those I mentioned earlier, namely that the number of families living on farms has reduced substantially between the two censuses.

Q. You said there was little demand in the rural areas, but, Mr. Mansur, is not that true because the mortgage companies under the Act we had, simply would not lend in the rural areas?—A. Mr. Thatcher, ever since 1948 there has been that provision in the National Housing Act which reads something like this:—where, in the opinion of the Corporation, a loan is not available under the Act, then the Corporation may make such loan on the same terms and conditions as would be applicable if a lending institution had been making it. Now, I think it is fairly general knowledge that we will make a loan under the National Housing Act in the rural areas but we do not get many applications. As I say, we have only approved 19 loans and I can assure you that there are no great number of farm applications which we have declined because we do everything in our power to approve an application for a new farmhouse.

Mr. THATCHER: I can understand that, however—

The CHAIRMAN: Mr. Robichaud?

By Mr. Robichaud:

Q. Mr. Chairman, I will follow your direction and try to avoid making a speech but with your permission I will make a few brief remarks which will lead to the two questions I wish to ask Mr. Mansur. I must say, personally I have built two homes under Central Mortgage and Housing Corporation, the first one being on a joint loan. The inspection may not have been what it should have been, and personally I was inclined to try to save a few dollars on the construction. On the second one which I built last summer in a rural area, I followed the building standards and I may say from the experience that I had in the construction of those two houses, that the building standards are not an important factor in raising the cost of the building. They are standards which are necessary to the construction of a good house and if the price goes up many times it is due to the choice of the builder himself—if he wants solid brass knobs and hinges and fancy bathrooms and other accessories—it is up to him. What I am mainly interested in in connection with the statement which was made this morning is the need of houses for the low income class group. In my own constituency, which is over 80 per cent rural, we have a great need for new homes, and what I would like to find out from Mr. Mansur is this: can a loan be granted, say for \$3,000, \$4,000 or \$5,000? I will explain further, if a farmer or a fisherman or a labourer who is in a position to do a good percentage of the work himself—he may own his lot, he may have his own lumber on his farm, and after his regular hours he is in a position to put in 15 or 20 per cent of the cost of the house in labour—can a person of this class be entitled to a loan?—A. Under the present Act, yes.

Q. They are? My second question is with reference to repair and improvement. There again in rural areas and mainly in fishing centres, we have homes which have been built by fishermen in proportion to their income. They may have a good standard of building, and a good foundation, and I would say the “shell” of a house. This house has to be completed, a proper water system has to be installed, and if this person could obtain a loan of \$2,000 to \$3,000 he would be in a position to have a decent house, decent accommodation. Is such a loan available?—A. Mr. Robichaud, under the Farm Improvement Loans Act a farmer can go to a bank and obtain a loan for the improvement of his house. I am not familiar enough with the regulations to know whether a fisherman qualifies as a farmer.

Mr. BENIDICKSON: The maximum ceiling is \$1,000 for a fisherman.

The WITNESS: Under the National Housing Act 1944, the provision is very much the same as under the Home Improvement Loans Act of 1937. That portion of the Act has not been proclaimed so that, under the National Housing Act at the moment, there is no provision whereby loans for the improvement of houses can be made.

Mr. ROBICHAUD: Is it the intention of Central Mortgage to have this new clause included? Is there a possibility it may?

The WITNESS: Mr. Robichaud, bill 102 contemplates the re-enactment of that home improvement section. Whether or not it will be proclaimed is a matter for determination by the Governor-in-Council.

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. Mr. Mansur, my questions will relate to the statement which you tendered to us this morning, and which I think we all appreciate is a comprehensive statement, and may I say at once, I think we can all agree in measuring the backlog we have to arrive at some common understanding as to standards in order to compare parallel figures.

Is anything being done at the present time to carry out a survey of housing needs in Canada, whether under the auspices of your corporation or any other?—A. As a project clearly identified as such, I think the answer is, "no". However, work on housing needs in most communities of Canada is continuously going on. Once every two months we receive a report from each one of our branch offices who deal with every community of over 5,000 people in their territory. In addition, we are dealing with some of the provinces on section 35 public housing projects. In every one of these cases an examination is made of local housing needs, so my answer is—"an overall project, no; but the continual accumulation of information for various parts of the country, yes."

Q. Don't you think there is need at present for something in the nature of a comprehensive nation-wide survey of housing needs? I am not saying necessarily done by your corporation, but I am thinking of one that would be done on such a basis as to command general respect as to its personnel, as to its methods and objectives. It would have to be done under official auspices, of course.—A. I would be very disappointed to see a condition develop where our opinion of the housing need would not have universal respect and we would have to find someone not actively engaged in the housing field to prepare such a report so that it would have respect.

Q. You are saying, I gather, that you think the Central Mortgage and Housing Corporation is in the best position to make such a survey?—A. Yes.

Q. Is it possible for Central Mortgage to take such a survey under present conditions, and if not, what more is required to enable them to carry it out?—A. Yes, I think we could if it ran high enough in priority to the many other things we have to do.

Q. What further is required to enable you to carry out the kind of survey that is needed?—A. I don't think anything is required. I think it could be done under Part V of the Act, and I think that our field organization would form a very important nucleus in doing so. I may say, Mr. Fleming, I have no faith whatsoever in a survey of that kind which was done in a nice quiet room in Ottawa.

Q. If the Chairman will permit, I would quite agree with that. The kind of survey we are speaking of, is a field survey carried on in actual conditions and based on observations. Is there anything more you can comment on that Mr. Mansur? Don't you think it would be very highly useful to you, not to mention to parliament, and perhaps even the government, to know what the disclosures of such a survey would be?—A. Well, I think, Mr. Fleming, that such a survey would have to be based on someone's notion of what the housing need was.

Q. That is why I began by saying that we would have to define our standards.—A. Quite.

Q. And it may be that such a report would have to take an account of certain brackets to allow of some play of opinion with regard to what might constitute acceptable standards. I am quite prepared for that. But don't you think there is a need today for such a survey and it would be very useful in shaping our objectives, including our legislative objectives?—A. I think that such a calculated estimate of backlog of need would be a pretty theoretical document, and whereas it would be academically most interesting, I am not quite sure how practical its use would be.

Q. Well, let us not be dialectical about this. At least it will be much less theoretical than what we are doing now, including what was stated this morning. We are talking about a survey based upon physical observations in that field.

THE CHAIRMAN: It just occurs to me, Mr. Fleming, that Mr. Mansur's statements on backlog today must have been as a result of a field survey; obtained from his men in the field.

By Mr. Fleming:

Q. As far as it goes, but I think we need something a little more comprehensive.—A. There is not anything very indefinite in my Saint John and Pictou examples.

Q. Take your Saint John and Pictou examples. I followed your statement this morning and I did not find in it the phrase that used to be so familiar, "family formations". Has that been discarded as a measure of housing need or have you simply changed terms?—A. No, if one were to project as Mr. Hees did earlier this morning, then I think one must use net family formation for the projections. The figures mentioned as being projected from the 1951 census to the end of 1953 had, of course, as one of the elements the net family formations during that period. But if you are dealing with the housing position at a given point of time, say, as a result of figures from the census, then you do not need family formation because there is no projection to be done.

Q. Very well, but we have the census only every ten years and it is hardly available before, say, it is out of date. The figures we have been given, Mr. Mansur, are that the family formations in Canada now are running at the rate of about 90,000 per annum.—A. Mr. Fleming, our unadjusted estimate for net family formation in the years 1952 and 1953 is 85,500 and 94,000.

Q. That is an average for the two years of, say, 90,000, with indications that it is still rising.—A. Well, I am not sure of that, Mr. Fleming. The marriage rate, which is extraordinarily high still—absolute marriages in 1953 of 130,000, higher than in the last seven years.

The CHAIRMAN: Did you say "absolute marriages"?

The WITNESS: Yes, as against the rate.

Mr. MACDONNELL: What are absolute marriages?

The CHAIRMAN: Well, we must leave it at that.

The WITNESS: I would guess that we are running fresh out of people to get married in respect of a continuing level of 130,000 a year. The demographers forecast a drop in that marriage rate. Now, the demographers have been forecasting that for the last eight years and they have been consistently wrong; they have been forecasting a decline in the birth rate and they have been consistently wrong. However, they may be right some day, in which event net family formation would turn down to the extent that marriages turned down from 130,000. Now, the other addition to marriages—

By the Chairman:

Q. They have been wrong for eight years. Of what value are they?—A. I would say their guesses have been wrong in recent years, that marriages would turn down.

By Mr. Fleming:

Q. Mr. Chairman, without going too deeply into these estimates—perhaps Mr. Mansur might comment on this, that in calculations that sensible people are going to make about need, we are going to figure on a continued family formation of about 90,000. It would not be prudent now to calculate on much less than that.—A. I would agree.

Q. Now here I come to your comments on Saint John and on Pictou. Your general statement this morning, of course, is based upon national percentages, leaving in some cases Newfoundland aside. Before we go into national percentages or attach too much importance to the cases of Saint John and Pictou, I want to ask you if it is not fair to examine the situation rather more on a regional basis or local basis when we are thinking in terms of this matter of backlog. I think we can all agree that there have been shifts in population. During the war there were special economic activities in special places. Pictou

is an example where there has been a pronounced change in economic activity since the end of the war. If I could direct your attention for a moment to this matter of housing need on a local basis rather than just putting it on a basis of figures of national averages, might I ask you, do you know if it is a fact that in the areas where housing need is most acute today we may have fallen behind, certainly we have not made the progress you think we have made on the average national picture?—A. Mr. Fleming, I think that is a very pertinent comment. I think that one might take certain comfort out of an Ontario figure that you could not take of, say, the Toronto figure. There are offsets in areas where congestion has not been as great. I agree with you completely.

Q. I think, in justice to our committee, that we ought to look more closely at the national averages. Can you tell us in what local areas today in Canada we have not made this kind of progress with the housing backlog which existed at the close of the war?—A. Edmonton.

Mr. THATCHER: Moose Jaw.

The WITNESS: Red Deer.

Mr. HUNTER: Please speak of Canada.

The WITNESS: Moose Jaw, Toronto; I think those are the extreme ones; but once again, it is a matter of degree.

By Mr. Fleming:

Q. What about Montreal?—A. The starts in Montreal, Mr. Fleming, ever since the end of the war, have been far above the national average, and by far the best of our metropolitan centers. I do not think that you could put Montreal in a class with Toronto and Edmonton.

Q. What about Vancouver?—A. The Vancouver situation has eased considerably. But had you asked the question three years ago, I definitely would have said, "Vancouver".

Q. Probably I did two years ago.

Mr. THATCHER: Is Regina in that category too?

The WITNESS: Yes, Regina; although in the years 1952 and 1953 there has been a tremendous amount of housing in Regina, but I think you are quite right in adding Regina because I do not think there is any city in the country where market rentals are as far spread from economic rentals as in the city of Regina.

By Mr. Fleming:

Q. Before leaving that point, I take it that when you are speaking of these cities, you are speaking of the whole metropolitan area, in each case?—A. Yes, always.

Q. Would you be prepared to offer an opinion as to whether or not we have actually fallen behind the growth of families in the postwar period in our house construction, and whether the over-all housing problem is more or less acute than it was at the close of the war?—A. Well, I think that in Edmonton, with the very heavy migration there, the situation is less favourable than it was on January 1, 1946. Now, that is an extreme example. I would think that Toronto was not far different, and the situation perhaps had deteriorated a little.

Q. You are taking into consideration in each case the heavy influx of population in those years.—A. Yes.

Q. And we are talking about the family formations in the particular local area?—A. Yes.

Q. And you would say that the whole of Toronto has deteriorated a little?—A. Yes, I would say so, although it is not as difficult to rent a house in Toronto today as it was in January 1946, when it was almost impossible to do so.

Q. It is not easy to do so today unless you have a lot of money. My next question has to do with the relationship of this to your objective. I take it that Central Mortgage and Housing Corporation, in looking over the field of need, is planning objectives. What objectives have you planned in the over-all program which are designed to meet, on the one hand, current needs developing, and on the other hand, to meet the problem of this backlog, whatever may be its true proportions?—A. We have not an annual target of accomplishment as such. If we had such a target, I do not think we would be saying too much about it. But each year we turn to our branch managers and ask them what they think the need is in their area, and what they think the following year's housing starts will be in the territories for which they are responsible.

Those reports are sent to us in Ottawa. Figures which seem unusual are checked back with our branch managers, and shortly before the start of each year, we come out with a guess as to what the next year's housing program will be.

If, in the course of getting these figures together we find a community where the starts seem unusually low in relation to the need of that community, we would have a talk with our manager and try to determine the reason. We would attempt to see what could be done about it, either through consultation with the municipality, or, if Section 35 were in operation in that province, with the provincial government. So I would think, Mr. Fleming, that whereas we have not an over-all target on a national basis, we have smaller targets on a local basis before us continuously.

Q. Would it be fair for me to put it this way: that you are engaged in a process of compiling annual estimates; and that where you find any area which does not seem to fit into the pattern of your organization, you then examine that situation, and you will sit down and plan a target, having regard to the housing needs of that area, and thereby offer an initial solution to the problem or a contribution to it?—A. Not other than in my own mind, no.

Q. I wondered if, in relation to the new scheme of financing and building, you had developed any objectives and calculations in that respect?—A. We have some hopes.

Q. Well, we might come to that. But first of all, are there any objectives of which you know? We have had a figure of 100,000 houses a year as being a sort of level of starts, and you are at the present time fitting it into the picture of objectives in relation to the new scheme of financing under the bill?—A. I gathered that the figure of 100,000, which was suggested by the government, not by us, might be considered reasonable accomplishment.

Q. I am not arguing about it but I am wondering about your efforts in Central Mortgage and Housing, with the responsibility that is yours, and whether you are developing any contracts?—A. I mentioned that, Mr. Fleming, to make it perfectly clear that the 100,000 was the figure of the government and not the figure of Central Mortgage.

Q. I will not pursue that until you have your figures. There is no problem as far as the house building capacity of the Canadian construction industry is concerned at the present time?—A. In respect to housing starts up to say 125,000 or 130,000, I would say no.

Q. It is a problem then of larger financing and turning housing need into effective demand?—A. And serviced land is a very important problem.

Q. As you have put this matter of housing need, in the light of your very fair comment, it is a problem of finding an objective test, numerically in the range of 75,000 to 200,000, in your statement this morning. Do you see any danger—this is a thought which came to my mind as you read your statement this morning. If we are gearing our legislation in this country to an established production of 100,000 housing units a year, shall we say, and if for any reason

the family formation rate should drop and there be any drop in immigration or marriage rate, is it possible that within a matter of three years, we may, with the kind of program we are talking about under this Bill have a housing surplus?—A. No.

Q. I am measuring that in terms of effective demand.—A. I can visualize effective demand falling to a point that 100,000 new units in the economic field could not be absorbed, yes. In fact one of the major differences between housing in Canada and housing in the United States at the moment is that the United States Government through the F.H.A. is giving support to the used house market in order to create effective demand for the new house market. Now, in this country we do not seem to have reached that point. Effective demand is very strong at the moment. The average house in Canada is taking about six and a half months to build. On the average houses are being sold about three and a quarter months after their start which indicates a very high effective demand.

Q. Are you speaking of houses in general or those under N.H.A.—A. Under N.H.A. Those are the only ones we know of.

Mr. ADAMSON: Is that before they are finished?

The WITNESS: On the average the small house under N.H.A. takes six and a half months to build, and on the average that house is sold 3·2 months after the loan approval which is the approximate date of starting.

By Mr. Fleming:

Q. When speaking of the length of time to build a house and effective demand, you indicate effective demand is very active at the present time. Thinking back to your evidence given before this committee two years ago you were very careful to draw a clear line between housing need and effective demand. How would you compare the effective demand today with the effective demand two years ago?—A. Effective demand is stronger today than it was two years ago very definitely.

Q. Does that take full account of the financial capacity of the market to produce houses at the market rate?—A. Yes. I think that the effective demand has reached a point which is almost as high as it was in 1946-1947.

Q. Is it more than the peak period of 1947?—A. Starting from 1948 I think the effective demand is higher today than at any other time.

Mr. FLEMING: This may not be the place to ask this question, and if it is not I will leave it. I would like to relate that very interesting test to the case of the down payment under the scheme.

The CHAIRMAN: Not now.

Mr. FLEMING: I have no doubt he will tell us more about this new housing demand that the Bill is intended to make provision for.

Thank you.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: It is now ten minutes to one.

The CHAIRMAN: We will hear Mr. Macdonnell, Mr. Crestohl, Mr. Weaver, Mr. Noseworthy, and Mr. Hunter in that order starting at 4 o'clock. We will now adjourn until that time.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

BILL 102.

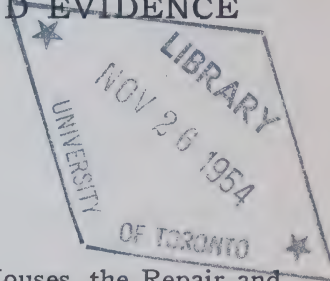
An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

TUESDAY, FEBRUARY 9, 1954

(Afternoon Sitting)

WITNESS:

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.



MINUTES OF PROCEEDINGS

TUESDAY, February 9, 1954.

The Standing Committee on Banking and Commerce met at 4.00 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Ashbourne, Balcom, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hees, Hellyer, Huffman, Hunter, Johnston (*Bow River*), Macdonnell, MacEachen, McIlraith, Noseworthy, Quelch, Robichaud, Rouleau, Thatcher, Weaver, Wood.

In attendance: The Hon. Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Mansur was further questioned on his statement presented to the Committee on February 2. (*See Minutes of Proceedings and Evidence No. 1,*

Tuesday, February 2, 1954).

At 4.40 o'clock p.m., the division bells having rung, the Committee adjourned and proceeded to the House.

At 5.15 o'clock p.m., a quorum having again assembled, the Committee continued with the examination of Mr. Mansur.

Members present: Messrs. Benidickson, Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Croll, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hees, Hellyer, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, McIlraith, Noseworthy, Philpott, Quelch, Rouleau, Thatcher, Weaver.

In attendance: Same as shown above.

At 6.00 o'clock p.m., the examination of Mr. Mansur still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, February 11, 1954.

R. J. GRATRIX,
Clerk of the Committee.

AFTERNOON SESSION

The CHAIRMAN: I see a quorum. There are just two matters I wish to bring to the attention of the committee. Originally we had scheduled Mr. Towers to follow Mr. Mansur. We now find that Mr. J. T. Bryden, the president of the Dominion Mortgage and Investment Association, will be going out west on business and asks to be heard at an earlier date. I have discussed this matter with the agenda committee and they agree that we should accommodate him. He will be heard starting next Tuesday morning. It has been brought to my attention that we have overlooked the Canadian Legion, and did not ask them to present a brief. I have taken it upon myself to ask the Legion to make a presentation, and they have indicated that they will do so. The clerk is making the necessary arrangements.

Mr. FLEMING: Mr. Chairman, shall we be having a meeting on Tuesday afternoon as well as Tuesday morning, if Mr. Bryden has not completed his evidence? We would be able to sit in the afternoon, to save him another trip.

The CHAIRMAN: Oh, yes, Mr. Bryden has to leave for the west on Tuesday night. Mr. Macdonnell, will you step aside for a minute? Mr. Philpott has been asking for the floor for two days. Now, Mr. Philpott.

Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation, recalled:

By Mr. Philpott:

Q. Mr. Chairman, I wanted to ask a few questions that arise out of Mr. Mansur's comments, at the top of page 3, and that is in reference to the special veterans' settlements. I want to ask you how this legislation will affect the veterans' housing scheme that we have now, for instance, in my riding in Fraserview, and the other apartment houses where we rent the premises to veterans in Vancouver. Will this legislation make any serious change in the set-up?—A. The legislation will not change the situation from that under the present Act. The Fraserview project was built as a veterans' project with moneys voted by parliament for that purpose. The Fraserview project was one of those that had been entered into when the veterans' rental program was terminated in 1949. In this legislation there is no veterans' preference contemplated.

Q. Would you say the general tendency, then, of this legislation would be more or less to wind up, to tend to wind up the settlements that have been made? In other words, my understanding is that sooner or later those houses out there are to be sold to the occupants, is that right?—A. That has never been discussed with the municipality, Mr. Philpott, and there is an agreement with the municipality which contemplates Fraserview as rental housing.

Q. As rental housing? Is it going to be frozen at the present level or is there going to be an extension of it?—A. There can only be extension of rental housing for veterans owned by Central Mortgage if parliament votes money for that purpose.

Q. In other words, this legislation itself does not change the status quo in any way?—A. No.

Q. And if there were any more settlements contemplated, that would have to come by way of a special bill and a special vote by parliament, is that right?—A. Yes, the Fraserview project and similar projects did not arise from the National Housing Act. They arose as a result of a vote by parliament of sums of money to be used by Central Mortgage to build rental housing for veterans, so that the change from the present National Housing Act to Bill 102 has no effect on that condition.

Q. I see. Just one further question to tie this up. These apartments that we have in Vancouver and other places which are rented for veterans with families—do you foresee any change, or will they carry on indefinitely as is?—
A. Which apartments are those?

Q. Those apartments in downtown Vancouver.—A. On Broadway and Fourth?

Q. Yes.—A. Those units were built by Housing Enterprises Limited. I think I referred to it in my opening statement—a company mutually owned by the life companies to build rental housing for veterans. Their operations terminated in 1947 after they had started 3,300 units. There will be no more houses from that source, because Housing Enterprises has been wound up.

Mr. PHILPOTT: Thank you very much.

The CHAIRMAN: Thank you, Mr. Philpott. Mr. Macdonnell.

Mr. MACDONNELL: I have a general question affecting the work of this Committee which I wish to ask the chairman briefly before I ask Mr. Mansur any questions. Are we going to get the regulations, Mr. Chairman?

The CHAIRMAN: I am not the witness.

Mr. MACDONNELL: No, but I have asked you a question.

The CHAIRMAN: You cannot have regulations until you have a bill, I am told.

Mr. MACDONNELL: Does that mean we are going to finish our deliberations without ever seeing the regulations?

The CHAIRMAN: I think that is what it means.

Mr. MACDONNELL: Doesn't that strike you as rather odd? Isn't it like having a play without Hamlet? I feel it is like a lot of children playing in the sand if we do not have the really effective part of what we are talking about.

The CHAIRMAN: But the meat is in this bill. The regulations are only incidental to the bill.

Mr. MACDONNELL: Technically perhaps, yes, but I suggest to you that what is in the regulations might easily be far more important than what is in the bill. You know how unwilling I am to use strong language, but if I were one of the people who use strong language I might say it was an affront or an outrage if we do not get the regulations. I won't take more time. I am sure you see that if we are asked to go right through this, for instance if we are asked to consider the kind of guarantee without having the regulations in which the guarantee is contained, I would say that children in the sand would be more serious than we would be.

The CHAIRMAN: You could discuss the guarantee with Mr. Mansur, and you will discuss it with others who will come here to give evidence.

Mr. MACDONNELL: Mr. Chairman, I won't take more time now, but I just want to make you realize that I want to keep a toe in the door and I will become more and more offensive as time goes on if we do not get the regulations. I think that before we reach the end of our committee we should have before us the draft regulations.

By Mr. Macdonnell:

Q. Mr. Mansur, you said, if I remember your words, the "effective demand"—I think those were the words—was greater than since 1946. I realize that effective demand may be a very different thing from need. I want to ask you if you would make it a little clearer, that is, does it relate purely to capacity

to pay, earning power, to justify the making of the loan. Is that the full comprehensive definition of demand? May I just add this? Superficially, I do not think it is, from what is down on page 4, it does not prove anything, Mr. Mansur. But that is the only answer this morning you gave that did not seem to me to flow naturally and inescapably from your memorandum. It seemed to me that on page 4 there are certain things which might seem to go against it. On page 4 you are talking about the need. Here you are talking about something different. Would you make it quite clear what effective demand is.—A. By “effective demand for new houses” I mean the number of new houses for home ownership which people are prepared and able to buy at existing prices and the number of new rental dwelling units investors are prepared and able to build and rent at existing prices.

“Effective demand”, as it is used in housing terms is really the demand from prospective home owners and tenants for new housing at economic rates, and that is very different from the need. I think that in 1934 or 1935 we had quite a substantial housing need in Canada and little effective demand. Now the measurement of effective demand is pretty pragmatic. One looks at 1,000 houses built in a municipality, and the builders will tell you that they are selling well or they are selling fairly well or they are sticking. The way we measure it is the manner in which I indicated this morning, namely, we consider the length of time between start and completion and then see where the effective demand is effecting a sales transaction in respect to those houses in relation to the time of construction.

Q. Is it a fair question to ask you: Are you able to say whether effective demand, which you described as being greater than since 1946, is sufficient to absorb the start of the buildings which you expect to be completed within the time when you can gauge the demand?—A. At the present time new houses, both for home ownership and rental, are coming in at the rate of about 105,000 units a year. I believe that the effective demand is sufficient to look after new production at the rate of 125,000 to 130,000 units a year.

Q. In other words, you say that people's resources, the resources of those who need houses, even without the passing of this legislation and the changing of the requirements, would be sufficient to absorb more houses than you think can be built this year?—A. That is correct, yes.

Q. That is my question.

The CHAIRMAN: Mr. Hellyer, have you any questions?

Mr. HELLYER: I have one I would like to ask.

By Mr. Hellyer:

Q. Mr. Mansur, you anticipate the National Building Code to be satisfactory for adoption by many municipalities. Why do you anticipate C.M.H.C. standards will be different from the National Building Code?—A. I do not think there will be substantial differences between C.M.H.C. standards and the National Building Code. The National Building Code deals with all types of construction. Our standards deal with residential construction only. It is likely that our standards will go into perhaps a little more detail as relating to the small house than will the National Building Code itself; but, Mr. Hellyer, I do not think there will be substantial differences between the two. We are now reviewing the Central Mortgage standards in the light of changes in the National Building Code and the two will be dovetailed as closely as possible so that, whereas there may be technical differences, in standards they will be the same.

Q. In other words, where a municipality does accept the National Building Code as its standard for practical purposes your requirements would be almost identical in the housing field to the municipal requirements?—A. Yes, sir.

Q. And that would be in effect an improvement over existing standards?
—A. A very great improvement if we can have uniform municipal, National Building Code and C.M.H.C. standards.

The CHAIRMAN: Mr. Crestohl, please speak up.

Mr. CRESTOHL: There is only one question arising from the legislation—

The CHAIRMAN: We cannot hear you.

By Mr. Crestohl:

Q. There is only one question arising from the legislation from the statements of Mr. Mansur, which I would like to address myself to. It is one that has been discussed at a previous meeting and one that Mr. Johnston spoke about this morning. It is the question of satisfactory inspection. I am wondering whether it is not a false form of economy, in trying to keep the cost to the owner, the purchaser of the building, down by not involving him in an expense of inspections. It is true that there are a number of inspections, but these are not done for nothing. There are maybe four, five, six or seven inspections. If you were to take the accumulated cost of all these inspections and concentrate them into one by a qualified architect, so that the architect himself would carry the full responsibility to the purchaser of the house when he gets it, and so that when the purchaser gets the architect's certificate, he has got someone to whom he can turn, if anything goes sour after he has taken possession. I know that in the province of Quebec, and in other provinces too, the architect carries the responsibility for five years, in the case of any defects developing.

The CHAIRMAN: Mr. Crestohl, the question, if you please.

By Mr. Crestohl:

Q. Well, you cannot formulate a question without creating a basis. I am merely trying to create a basis. I think what we are doing to a prospective purchaser is simply to throw him on the mercy of a builder, let us say, who builds houses with the object of having a large volume and turn-over and therefore is liable to make use of inferior material. Consequently the purchaser would have no one to turn to.

Do you not think it is false economy both from the standpoint of the government as well as the purchaser of the house if the purchaser has no responsible person to whom he may turn, who is responsible to remedy any defects which may develop? That is why I think we should consider this economy, where we are trying to save a prospective purchaser \$200, \$300 or \$400 in architect's fees, which he must spend somewhere down the line to other inspectors; and that it would be a better investment as well as better economy to see that there is a proper architect who will issue an architect's certificate which carries responsibility?—A. Mr. Crestohl, for 105,000 houses a year I do not think there are enough architects to provide architectural supervision for all of them. Under the National Housing Act there is nothing to prevent an owner, who wants to do so, from hiring an architect and getting an architect's certificate.

Q. But the owner will frequently get his house after it has been built, after it is finished, and he cannot always have an architect to step into the picture in that case.—A. I will come to that case in a moment. In the case of the merchant builder who sells his houses, there is no architect involved, as far as he is concerned. I think your suggestion, Mr. Crestohl, would involve architects being employed by every merchant builder—

Q. That is right.—A. —So that the architect would give a certificate to the home purchaser. I think that might be a little difficult to arrange. I am not absolutely sure that every architect in Canada is qualified to pass an opinion on a small house.

Mr. McILRAITH: Hear, hear!

The WITNESS: And after all, if you look over the profession, I think that while you will find a number of architects competent in the field, you will find a greater number of architects who never had much to do with small houses in any way, shape or form. Therefore I believe that your suggestion, whereas it would afford a large measure of protection to the home owner—would be very costly. I also think there would be great difficulty in finding a sufficient number of architects to adopt the suggestion on a national basis.

By Mr. Crestohl:

Q. Surely such a builder does not operate without appointing a qualified architect? If he does, then I think it is a responsibility for you or for the government to undertake to see to it that any contractor who builds large quantities of houses should be compelled to do so under architectural guidance and responsibility.—A. Well, Mr. Crestohl, I am not in the compulsion field; but I do not think that a case can be made that the large merchant builders need the assistance of an architect. The good merchant builder is very competent in the house building field, and probably quite as competent as the average architect in the small house building field.

The CHAIRMAN: Mr. Weaver.

By Mr. Weaver:

Q. Mr. Chairman, we have heard Mr. Mansur go over the problem of congestion in the cities, and the change from concentrations of population in farms to cities. I would like him to comment on another area where housing is definitely a problem and that is what we might term the frontier area, or the area in Canada which is growing rapidly and yet has not a concentration of population in the way that the cities have.

The CHAIRMAN: Can you not be more specific, Mr. Weaver?

By Mr. Weaver:

Q. Let us take the mining areas, and not only the mining areas, but let us take northern Manitoba and the territory along the Hudson Bay railway right up to Fort Churchill and now Lynn lake. The Lynn lake railway was initiated by the mining industry; but it is not just the mining area that I have in mind. I would include the Yukon as well as Yellow Knife, and I am particularly concerned with northern Manitoba.—A. In the trans-mountain pipeline arrangement, which is probably frontier-like in some respects in that it goes through brand new areas, the company has arranged to finance 99 units under the National Housing Act, to house people who are going to maintain the pipeline when it is in operation.

In Devon and Redwater the oil company has sponsored the housing. In Steep Rock, I mean Atitokan, the Steep Rock Company did exactly the same thing. Generally in the newer towns there is a sponsorship by the company whose activities have developed that town.

In the areas other than those that have industrial sponsorship, the home owner applicant is in exactly the same position as any other home owner applicant living in a less densely populated area. We get applications from the northern part of the three prairie provinces and we deal with them as they arrive.

There is one other activity under the National Housing Act and that is the authority to Central Mortgage and Housing Corporation to make loans for housing for the employees of primary producers. These houses are substandard by urban standards and are, in many cases, movable. Therefore they are unmortgageable.

We make loans for the construction of these houses on the basis, not of a mortgage, but of a chattel mortgage. We have made some 10 loans to various companies for that purpose. But I do not think I have quite answered your question, Mr. Weaver, in respect to people who live, let us say, along the railway to Churchill. There is not any particular facility under the Housing Act to provide them with houses other than the facilities of being able to make application for a loan as any other home owner in Canada.

By Mr. Weaver:

Q. How many applications have come from that area, let us say, in the last four years, if that is a reasonable period?—A. From the area of northern Manitoba?

Q. Yes; and if you can include the whole of the area, would it be possible to leave aside defence building in that total, because I know that Central Mortgage has done a great deal of defence building, the building of defence houses.—A. Yes.

Q. That type of project provides ownership for people who would not ordinarily build. Therefore I will exclude it.—A. There are units which we have financed at Churchill and one at Lac du Bonnet—that is the other way. No, I cannot find any on the Churchill line.

Q. We can leave that question for the moment. There is a particular problem in this area generally, but specifically at Flin Flon where veterans have not been able to take advantage of the Veterans Land Act and that requires largely an owner contract, and contrary to your statement of the insurance companies only operating at the major centres, they have been operating there and it does not take care of the type of construction which would normally come under Central Mortgage and Housing to my way of thinking. I have letters from over fifty veterans who decided to build under Central Mortgage and Housing. This project almost came to completion, but with a change in personnel at Central Mortgage and Housing it came to a stop. What would the prospects be for such a project under the new bill?—A. I think very much the same as under the present act.

Q. That means nil?—A. No. I am afraid I am not familiar with this case. I know that the company at Flin Flon were talking to us at one time about some housing development, but I am not familiar with the application for fifty units that got sidetracked because of a change of our personnel. I will be very glad to have it looked up.

Q. I wish you would look that up.—A. I will answer you later.

Q. I would like to have your views on the question of an owner contractor because it seems to me that that particularly is applicable to this type of area, and if that field can be expanded in the light of the banks coming into it, and if that would be a help or a hindrance when a man starts to build his own house and is his own contractor?—A. The flashlight job or owner labour equity job is of course a difficult one for the mortgagee to handle. Among the difficulties are: one, period of construction is usually a very long time; two, there is usually not too much working capital; three, there is usually an overestimate by the owner of the value of the owner labour content in the house; and, four, it seems that on many occasions the house never gets finished. In fact I think you could call the house with owner labour content the mortgageman's nightmare. To our organization it also has nightmare qualities, but we try to keep these down. Even in our organization I think you will find that the undertaking of an owner labour mortgage is one which none of our people look forward to. There is too much chance of getting into trouble. However, throughout the country we are financing these owner labour cases. Our experience with the lending

institutions up to this point indicates that most of the owner labour cases will be financed by Central Mortgage. I think it is also a fair comment, Mr. Weaver, that many applicants come in with very high hopes and rather exaggerated ideas of the saving to be effected through their own owner labour content. When someone has to use their judgment as to whether it is a reasonable proposition it usually ends up in both disappointment and dissatisfaction for the prospective home owner.

We have felt that we should develop in each one of our regions, and indeed in each one of our branch offices a man, or men, who would specialize in assisting owner labour cases. I believe socially and from a long-term mortgage risk point of view this type of loan is probably the very best security you can get. I think that we have been successful in some of our efforts, but I would be the first to agree that perhaps we could do even more.

Before concluding what I have to say on this subject I would like to make one further comment. An owner labour house usually contemplates somewhere between 1000 and 1500 hours of owner labour. I have seen houses where there has been anticipation of more than 1500 hours. Even in the best of them the owner gets very, very tired before the house is complete. For that reason they are difficult cases to handle because if the man gets it framed, roughed in and the millwork on, and then gets tired, what does the mortgagee do. There is real trouble.

Q. Just one more question. It is on a different subject for the moment.

This morning you mentioned that the city of Regina had the highest range between what rents should be and what they actually were of any place in Canada. That statement amazes me and I was wondering if you could say why that should come about. At the same time Moose Jaw was mentioned; it was a similar problem, but not quite as aggravated. Is the province of Saskatchewan not using section 35 in the same degree the others are?—A. In Saskatchewan there have been 75 subsidized rental units under section 35 in the city of Moose Jaw, and 30 under construction in Prince Albert. The reason for the tightness in Regina is that there has been a sharp increase in population without many apartment houses or rental units having been built in recent years, and by recent years I mean right back to about 1929. There have been only a few apartment houses built. The result is the demand for apartment houses in Regina outruns the supply by a wider margin, I believe, than in any other community in Canada.

MR. THATCHER: Mr. Chairman, could I follow Mr. Weaver's question?

The CHAIRMAN: I am sorry. I will put your name down and try to work you in later today.

MR. NOSEWORTHY: The question I have to ask pertains to the question of an inspection and the protection for the buyer. Is there anything in the new legislation or the regulations pertaining to the new regulations other than the transfer of inspection responsibility that will enable Central Housing and Mortgage to see that builders deliver to the purchaser the type of house that is called for in the regulations and prevent the kind of thing that is happening now.

I want to give one concrete illustration very briefly. A man about a year ago bought a home here in Ottawa, financed by Central Mortgage. There was certain work that was not completed which was definitely called for in the regulations. He went to the builder and received no satisfaction. He went to Central Mortgage and they were in favour of having the builder go to his house and make things right, but again he received no satisfaction. He wrote to the minister and the minister turned it over to Central Mortgage and Housing. The thing went on. In October he had a definite promise from Central

Mortgage and Housing that the builder would see him within a little while. The man did not show up. He had an interview with Central Mortgage and Housing and Central Mortgage and Housing said they just could not understand why he had not received satisfaction. This matter has dragged on until one week ago. This man then received a letter from the minister, and this was in the form of a "brush-off." The minister said, "I have shown your letter to Central Mortgage and Housing and asked them to give me their report. They confirm that they found it impossible to persuade the builder to return to your home and make good certain work. The corporation has now concluded that it has done all it can to assist you and it now remains for you to take legal action against the builder." That is the situation.

Mr. McILRAITH: What he needed was a good lawyer.

Mr. NOSEWORTHY: This is a situation which drags on for a year. Is there anything in the new legislation which would give Central Mortgage and Housing some authority or hold over the builder, either by holding back mortgage money or any other way that will ensure that a builder delivers to the buyer the kind of home that the regulations and the terms of the sale require?

The WITNESS: In Bill 102 there is no change in that respect, but having said that, I do feel that the uniformity of inspection which is contemplated by Bill 102 may improve the situation somewhat. One of the difficulties is this: the owner complains about a house not being satisfactory and appeals to Central Mortgage. Central Mortgage goes to the builder and says, "This owner is unhappy. We rather agree with the reasons for him being unhappy," and the builder says to us, "But the inspector of the lending institution was quite satisfied with this when the work was going in place." That condition will be eliminated under the new arrangement, but apart from that I do not think that there is substantial change in the new bill in respect to the point you have mentioned.

By Mr. Noseworthy:

Q. It is more than inspection. In this particular case apparently, Central Mortgage was supposed to do certain work on the house; storm doors were to be provided, stair rails were to be provided and other things. Those were not done. Central Mortgage and Housing tried for a year to get some satisfaction from the builder and failed to do so. Then, at the end of the year, the builder went out of the building business and Central Mortgage said, "Sue the builder." Now, that is the kind of thing that you run up against. What is your hold on a builder in a case of that kind?—A. The hold on a builder, Mr. Noseworthy, is to refuse to grant approval of any more loans until he has satisfied what we think are reasonable conditions, and I underline that word "reasonable," because what we think are reasonable conditions do not always coincide with what the home owner thinks are reasonable conditions. As I mentioned yesterday, I think there are just as many unreasonable home owners as there are unreasonable builders.

Q. But surely when you have specifications which call for certain things to be done in a house, and they are not done, and it is quite evident that the builder has not delivered the goods, and that drags on for a year, then finally the builder goes out of the business and the purchaser is left holding the bag, there should be some way—

Mr. CANNON: On a point of order, Mr. Chairman, that point has nothing to do with the bill. It is a matter of enforcing a contractual obligation between the contractor and the builder, and the law courts look after that.

The CHAIRMAN: That is the best legal advice you have had yet. Have you finished this aspect?

Mr. NOSEWORTHY: I would like to ask some questions on the guaranteed rental housing. Is that in order now?

The CHAIRMAN: I think we are on that point—all right go ahead.

Mr. NOSEWORTHY: What is the size of the larger rental projects, those large apartment houses—

The CHAIRMAN: The division bell is sounding gentlemen.

(The committee adjourned for a division in the House.)

The CHAIRMAN: We now have a quorum. Will you continue Mr. Noseworthy.

Mr. NOSEWORTHY: My question, Mr. Chairman, was: what is the approximate amount involved in the construction of some of these larger guaranteed rental housing projects, some of these larger projects?—A. The largest one we have insured was one of the early ones—Norgate in St. Laurent there were 1100 units at about \$6000 each so the loan was about \$6½ million. There is one under construction at the moment in Halifax on the Dartmouth side of 432 units. The loan there is about \$2,800,000. There is one in Edmonton being built by George Golden involving 600 units with financing of about 4 million. I think these are the largest ones.

Q. How does Central Mortgage arrive at an estimate, or agree on an estimate, of the cost on a project of that size?—A. We have a scale of lending values which are kept up to date in respect to about one hundred localities. We keep them up to date by having our people check wage rates, cost of materials and other items including the construction cost. From that we arrive at a level of construction value known as the lending value, and the loan is eighty per cent of that lending value. The allowed rentals are determined upon that lending value and the guaranteed rentals are eighty five per cent of the allowed rentals.

Q. My next question is: what is the nature of the audit after the project is completed to determine whether or not the project does actually cost as much as was estimated?—A. There are two techniques. Where the project is subject to proven cost, we send our auditor in to examine the books of the contractor. In the application he has agreed to make those books available. Should the cost be less than our lending value, then the loan is reduced accordingly. As an alternative to that, we have in a number of cases agreed with the contractor that the loan shall be reduced by an amount between \$150 and \$200 per unit for which we waive the proof of costs requirement. In other words, if we were prepared to make a loan of \$6800 per unit subject to proven costs we have entered into arrangements under which we make a loan of \$6600 not subject to proven costs.

Q. Those 6 million, 4 million, 2 million projects were constructed under which of those alternatives? You gave three examples, one where the loan was 2 million one where it was 4 million and one where it was 6½ million.—A. The proven cost technique came in about 1950. The Norgate project in Montreal was undertaken before 1950. The project at Dartmouth is not subject to proven costs but had a reduction of \$175 per unit in lieu of proven costs. The project of 600 units at Edmonton, is I believe, subject to proven costs. I would like to check that, Mr. Noseworthy. I could supply you with a list of proven and unproven cost cases.

Q. You would say there is no opportunity in the building in any of those major projects for a builder to save money on the amount of his loan? That is, for a builder in a project costing say \$4 million, to get out with \$50,000 or even \$100,000 less than his actual loan or less than the estimated cost?—A. I would be surprised if on an eighty per cent basis they were able to do so. I would also be surprised if some of the builders did not have exactly this in the back of their mind when they entered into the project.

Q. Do you think that is possible?—A. No. I do not think that is possible on an eighty per cent basis. I think it becomes very much more likely on an eighty-five per cent basis. At one stage we were making insurance loans on an eighty-five per cent basis and one of the reasons we came down to the eighty per cent basis was the very one you have suggested.

Q. You do not think it is possible under the eighty per cent basis?—A. I think it would be a very efficient builder who did so.

Q. Is efficient the word?—A. I think so because generally the rental insurance projects have been very good. By and large I have no apologies for these projects. Remember these projects generally are not for sale. In Montreal there were a number of them for sale, but the ones other than in the province of Quebec for the most part are not for sale. They are a long-term investment by the builder owner and for that reason removed somewhat from the type of difficulty you suggest.

Q. What is the restriction on the rent after the first three years?—A. There is no restriction. It goes on the open market after that time.

Q. The builder is only restricted for the first three years?—A. Yes.

Q. Another subject I wish to ask a question on is Mr. Mansur told Mr. Fleming this morning that there has been practically no diminution of the backlog of housing in Toronto since 1946.

The CHAIRMAN: That was not what he said.

Mr. FLEMING: The answer was I think the backlog in the Toronto area is greater now than in 1946.

By Mr. Noseworthy:

Q. Has the Central Mortgage and Housing Corporation under consideration at the present time, or in the process of negotiations on any projects that are likely to help or to overcome that backlog in the near future?—A. The province of Ontario and the new metropolitan commission under section 35 have accumulated acreage in Scarboro and options on acreage in North York and Etobicoke in an effort to assist the municipalities in providing serviced land. The province of Ontario and ourselves are in continuous discussion in respect to land difficulties in Toronto, although both of us have high hopes that the new arrangement under the Metropolitan Commission will improve the overall situation in Toronto.

The premier of Ontario on two or three occasions has said that one of the main purposes of the formation of the Metropolitan Commission was to meet this very problem of the lack of serviced land and thereby to extend housing in the greater Toronto area.

Q. Do you ascribe—does Mr. Mansur ascribe the lack of serviced land, or does he ascribe the fact that we have not caught up with our backlog to the scarcity of serviced land, or are there other factors which have to be taken into consideration?—A. In the Toronto area I think there are two main factors which have kept the ratio at about 10 new units per 1,000 of population as against 30 units per 1,000 of population in Edmonton. One is serviced land; and the other is the shortage of mortgage funds which developed last year.

Q. Have you found that the cost of schools entered into it?

The CHAIRMAN: Please, not that—

Mr. HUNTER: That is part of it, Mr. Chairman.

The CHAIRMAN: Mr. Noseworthy, I think you are getting a little afield. Would you mind leaving that for the moment until some of the others have had an opportunity to question on the backlog.

By Mr. Noseworthy:

Q. I have just one more question and it is on another subject. One of the classes of people in Toronto who are finding great difficulty is veterans with large families. Now, they applied to DVA and to Central Mortgage; but there is not any help for them at present. I understand that DVA has a very long waiting list of veterans, particularly those with families. Is there any consideration being given to this special problem, by Central Mortgage and Housing?—A. No. Our activities for veterans terminated with the 1949 program. Since then, other than for the completion of the program underway, no money has been voted by parliament for Central Mortgage to build rental housing for veterans.

Q. Does Central Mortgage contemplate asking for money for that purpose, or doing anything about it?—A. That is the type of thing which is initiated by government.

Q. That is not initiated by Central Mortgage?—A. No. We do not initiate moneys that are voted by parliament for our activities.

Q. Thank you.

The CHAIRMAN: I had Mr. Hunter and Mr. Quelch on my old list; and now I am back to the new list that I had compiled. I hope you will limit yourselves to three or four minutes, because most of you have already had an opportunity to question the witness. Mr. Hunter and then Mr. Quelch.

By Mr. Hunter:

Q. I was wondering whether Mr. Mansur has any information to show how the percentage of multiple occupants in Canada compares with the percentage in other countries?

The CHAIRMAN: We want to hear you, Mr. Hunter. Will you please speak up.

By Mr. Hunter:

Q. I am glad that you do. I am asking if Mr. Mansur has any information to show how the percentage of multiple occupants in Canada compares with the percentage in other countries.—A. No sir, I do not think I have that information and I think it would be difficult to obtain. The manner of taking census material varies so greatly in different countries that even in the simple matter of housing stock we have met trouble in getting figures that can be considered to be comparable.

Q. Well then, the second question is this: how can a young married couple or any multiple occupant who consider that they need separate accommodation, purchase it unless they have saved money and have an income adequate to pay for it?—A. I know of no manner for them to acquire it otherwise.

Q. Is there any country in the world where anyone can buy a house without money and on a low salary?—A. I cannot.

Mr. Low: You might steal one.

The WITNESS: I would like to consider my answer before I make it. I have in mind the third mortgage technique in Sweden; and it seems to me that there is something approaching it in New Zealand for a very limited class.

And as you know, Mr. Hunter, the proposal of the Housing Committee to the President of the United States suggests, as an experimental entry into the field, providing individual units to families who otherwise could only have been looked after in a public housing project.

By Mr. Hunter:

Q. In those countries which you mentioned, how is such housing provided? How is it financed?—A. Well, in Sweden they rely very largely upon multiple accommodation on a cooperative basis. I think that would be the predominant kind of new housing in Sweden.

In New Zealand, according to what I have read, it is done very largely on a home ownership basis.

In Australia, the great proportion of new housing takes the form of cottages owned by the state and rented to families on a public housing basis.

In the United States, the arrangement is very comparable to our own with the main increment in the housing stock arising from merchant builders selling houses to home purchasers.

Q. And in the case of home ownerships, are these houses provided by the government?—A. In Sweden to the extent that individual units are bought by individuals, the government has a 10-year non-interest bearing, third mortgage arrangement.

In the United States I do not know of any individual cottage type houses other than some of the public housing projects, particularly for coloured people in the south, where there is a subsidy. I know of no home ownership subsidy in the United States.

As to Australia and New Zealand I am not sure enough to answer your question.

Q. Are you in a position to say that if we were to do it, it would have to be done with the taxpayers' money?

The WITNESS: I cannot think of anybody else who would provide the subsidy.

By Mr. Hunter:

Q. In other words it would mean a straight increased allotment from the Consolidated Revenue Fund and therefore an increase in taxes. Is that a fair statement?

Mr. FLEMING: No. An increase in the postal rates.

Mr. HUNTER: These are not post offices.

The WITNESS: I think that any subsidy in the home ownership field would have to be paid for in the same manner as the 75 per cent share of the subsidy under Section 35.

By Mr. Hunter:

Q. There is just one other aspect of this matter. Earlier today I think you said something to the effect that the Marsh Commission which sat, was completed in 1944 or 1945?—A. No, no. The Curtis Commission.

Q. I am sorry, the Curtis Commission. Was it in 1945?—A. They were sitting from 1943 to 1944, with a report early in 1944, if I remember correctly.

Q. I think you stated something to the effect that they considered that it would be a high objective to build 660,000 houses in the next decade, that is to say, if during the next decade we added 660,000 houses to the Canadian housing situation.—A. 606,000 in the first ten years after the completion of the war which at that time was estimated to start on January 1st 1946.

Q. Then I think you said that inside of 10 years, or 8 years you felt there were—A. There were 735,000 starts within the first 8 years of the decade set by the Curtis Commission.

Q. Would it be fair to say that if the Curtis Commission is to be considered of value, that their objective is also of value, and that therefore we have far exceeded that Commission's fondest hopes?—A. Much as I would like to, I cannot agree with you, Mr. Hunter. I think the Curtis report was based

on a good and sincere estimate by a group of men looking at Canada in the years 1943 to 1944, but who had no good reason to believe that the expansion and buoyancy of post-war Canada would be what it has been. Although it is nice to look back on the 606,000 units that they suggested would be an adequate program, I wish I could believe that our accomplishments were as far ahead of the real need as they are ahead of the Curtis Report.

Q. Would it be fair to say that you consider that the findings of the Curtis Commission are of greater or of less value than their expectations of building?

—A. In looking at the report today, I think there are a good many things upon which they came to conclusions that are subject to exactly the same limitations as, say, their estimate of a proper first decade postwar building program.

Mr. HUNTER: That is all, thank you.

The CHAIRMAN: Mr. Quelch.

Mr. QUELCH: I just want to get clarification on one point. Turning to the bottom of page 7 of the February 2nd statement, I read:

The major change contemplated by Bill 102 is to meet this situation by increasing the number of lenders under the Act and by making a larger sector of savings available to finance housing.

Now, does that statement indicate that loans by the banks for housing will be largely limited to the extent that the banks can divert loans and investments from other fields to housing? I ask that question because there appears to be a fear in some people's minds that that is going to be the case. For instance, Mr. Tucker expressed that fear when he spoke in the committee the other day and stated he is afraid that it might result in loans being cut off to farmers in order that the volume of loans now being made to farmers might be diverted to houses, but actually is it not anticipated that funds for housing will also be provided or augmented by an actual expansion of credit on the part of the chartered banks which, of course, will not be to that extent?

The CHAIRMAN: I think that is a very proper question, but is this the witness?

Mr. QUELCH: It is in his statement, you see.

The CHAIRMAN: Someone will have to answer it, but do you think that Mr. Mansur should have to answer that question.

Mr. QUELCH: I think that, seeing that Mr. Mansur was head of the Central Mortgage Bank, he would be a very proper one to answer it.

The CHAIRMAN: That is history. He has been with housing since 1935, and I don't think he is the one to answer that question.

Mr. QUELCH: I do not think he would dispute the statement for a minute that, because we are going to amend the Bank of Canada Act to make it possible to take mortgages into their portfolios, which will make it possible for them to make loans, which will increase the resources of the chartered banks, which will make it possible for the chartered banks to expand their loans, I do not think anyone will dispute that we are going to expand credit.

The CHAIRMAN: I am not anxious to enter into an argument with you about money and expansion of credit, but I would be much happier to have the question answered when Mr. Towers is here. If you ask Mr. Towers that question he will be able to answer it. The question of expansion of credit is a very important question, but I do not think it is for Mr. Mansur to answer. The answer should come from Mr. Towers.

Mr. Low: I think he handles himself very well. I don't think he needs any bodyguard.

The CHAIRMAN: It is just that I like to give the committee the very best witness we have available. Mr. Towers and perhaps the Deputy Minister of Finance are the very best people to question on that subject. In dealing with a matter that is as important as finance and as technical as finance—

Mr. QUELCH: I will not pursue that point. I want to bring up another point which has a very pertinent bearing upon it. I understood Mr. Mansur to say earlier in the afternoon that the effective demand for housing was at a high point. I think he compared it with the level in 1947 or 1948, which was an all-time high. Of course, an effective demand for housing is, I think, one that will affect the important question of expansion of credit. It will still further expand that demand. But I further gather from Mr. Mansur's statement that, while there is a high effective demand for housing today—the insurance companies which provide for 95 per cent of the financing of housing have actually over-extended themselves or maybe want to divert loans to the purchase of securities, and for that reason we can look for a drop in loans from the insurance companies for housing which would result in a lower effective demand. Is that a correct interpretation?

The WITNESS: I think one might anticipate that the life companies who are the backbone of the National Housing Act, will be unable to maintain the rate of lending which they did in recent years. If that takes place and if the amount of loans available under the National Housing Act was thereby reduced, the effective demand might well be undiminished but the number of houses that could be built to satisfy that effective demand would be reduced, and therefore the effective demand would have a wider margin over the supply than would otherwise be the case; and the purpose, I believe, Mr. Quelch, of Bill 102 is to widen the group of lenders, whether their funds are from expanded credit or otherwise, so that our supply of new housing to satisfy this effective demand will not be diminished by reason of the lack of mortgage money.

The CHAIRMAN: I am on the second round of names. I have the names of Mr. Fleming, Mr. Macdonnell, and Mr. Thatcher. Mr. Thatcher says he has one question on Moose Jaw as a result of something said about Regina. First Mr. Fleming, who said he had one question.

By Mr. Fleming:

Q. Mr. Chairman, I want to come back to this matter of the relationship between effective supply and effective demand. Mr. Mansur has made it quite clear that at the present time there is effective demand for probably 20,000 more houses than are likely to be built under present conditions in the next 12 months. Now, I take it that the purpose behind Bill 102 in relation to this problem is not to expand effective demand at all; it is to stimulate house construction.—A. That is correct, yes, or provide the facilities whereby house construction can proceed at a reasonably high rate.

Q. Not necessarily to expand the rate but maintain it at as high a rate as may be possible; but your problem then, Mr. Mansur, is not today the problem of a lack of effective demand?—A. That is correct.

Q. In that respect the situation has changed since the end of the war and since you were here before this committee two years ago?—A. Yes, I think the effective demand is much greater than it was two years ago.

Q. Even with a substantial increase in the rate of construction in the meantime, the increase in effective demand has outrun the increase in the rate of construction in these two years?—A. I think so, yes.

Q. Even under the present Act?—A. I think that, in relation to the 105,000 starts in 1953, there is greater effective demand than there was in respect to the 70,000 starts of 1951.

Q. I will ask a question about the nature of the effective demand. Has there been any change in respect to the type of house, in relation to its price?—

A. The costs of houses have stayed relatively constant in the last two years. There have been some components, such as lumber, that have come down in cost, but this has been offset by other components such as land, which has gone up in cost. I believe that one of the reasons for the high level of effective demand at the moment is this constancy in price of houses during the last two years. I think it has been a very important factor, and I think that any sharp upward increase in the price of houses would have the effect of lessening effective demand. Now, I think I have got away from your question. As to the houses, about the same price per square foot as they were two years ago, but the houses on the average are somewhat larger, perhaps by 10 per cent, than they were two years ago.

Q. Which goes to emphasize again the increase of effective demand in relation to the rate of construction.—A. Quite. This is another increase, Mr. Fleming, because the effective demand is greater today in respect to the large houses than it was two years ago, in respect to a smaller supply of smaller houses.

Q. Then, am I to understand, Mr. Mansur that the problem, as you see it today in meeting the current needs, as well as whatever that backlog of housing needs may be, is not a problem that arises out of the inability of people in the market to meet the down payment?—A. In the overall, that is true. Some people have difficulty in meeting the down payment but there are enough people who can meet the down payment to buy all the houses that are offered.

Q. Today?—A. Today, yes. I speak generally—I think the figures I mentioned this morning, namely that the houses are taking $6\frac{1}{2}$ months to build and are being sold, on the average, $3\frac{1}{4}$ months after the start of construction, indicate that there are enough people able to meet the down payment.

Q. And how long, in your best judgment, is that situation likely to continue?—A. I find that a difficult question to answer, Mr. Fleming. I think that as long as the current buoyancy in economic conditions continues then I would expect to see a continuing high level of effective demand for housing. I think when economic conditions become less favourable then, very quickly and very sharply, we will see a change in the effective demand for housing.

Q. This will be my last point, Mr. Chairman. Going back to a point I was on this morning, Mr. Mansur, as to whether, in gearing up a program in relation to the new scheme contemplated by this bill, and in the light of the fact that you have put the backlog down as low as you have, it might not be possible, in your view, for house construction of the kind contemplated in this scheme to so far outrun the housing need in the case of recession so you may have a surplus?—A. A surplus of houses under construction beyond the effective demand? I think that if the effective demand turned down sharply, that is a possibility. However, the merchant builder is usually a sensitive individual and I think he would probably anticipate in large measure any such trend that developed to reduce the effective demand. I must say, that I think it would be a very pleasant experience in some of our communities to have a substantial number of small houses available for sale which could not be sold. I think it would be a very healthy thing to have, if for no other reason than to determine the market in its truest sense.

The CHAIRMAN: Mr. Macdonnell, would you bear with me if I were to give you first opportunity of questioning Mr. Mansur on Thursday?

Mr. MACDONNELL: I have just one question. Mr. Fleming has really covered what I wanted to cover, earlier in the afternoon, so that it leaves just one question.

By Mr. Macdonnell:

Q. When you give the figure of 105,000 starts, how is that fixed? Is that a ceiling? In other words, you spoke of effective demand of 125,000 which is 20,000 more than likely will be supplied now. Is this figure of 105,000 an absolute ceiling in your judgment?—A. No, I do not think it is. If we could find some manner satisfactory to the municipalities and the provinces to produce more service land, and if mortgage money was flowing as freely as it was in the period from 1946 to 1949, I would have every hope that the production of houses would get up to a 125,000 or 130,000 level.

Q. In other words, it is a question of money and service land?—A. In my opinion those are the two most important things, Mr. Macdonnell.

The CHAIRMAN: Mr. Thatcher?

By Mr. Thatcher:

Q. I just need a couple of minutes, Mr. Chairman. I would like to have one point clarified. If Mr. Mansur would turn to "rental housing" in his report, at the second page where it is indicated that Saskatchewan got 105 houses out of a total of 2,576, about 4 per cent. The people out there are wondering why it is we are getting so few? I would like Mr. Mansur to express an opinion whether it is that the provincial authorities are not making their application in the proper way, or whether when, if they made them, Central Mortgage has found it necessary for one reason or another to turn the application down. What do you think?—A. I might deal first with the largest city in Saskatchewan, Regina. There was a proposal in Regina to go forward with a section 35 project.

The CHAIRMAN: Would you define a section 35 project?

The WITNESS: A section 35 project is the federal-provincial arrangement in which the municipality participates. The city of Regina, through its council, made it abundantly clear that it did not want any public housing in Regina.

By Mr. Thatcher:

Q. That is what happened in Regina. What about the city of Moose Jaw?—A. I wonder if we could go down the list. Saskatoon is the second largest city. There were high hopes for a public housing project in Saskatoon. The matter was discussed at great length with the province and ourselves present. The city of Saskatoon had a plebiscite, the electors spoke and they said, "No public housing in Saskatoon." We proceeded with 75 units in Moose Jaw.

Q. The plebiscite called for 125 or 150. Who turned down the other 50—the provincial government or Central Mortgage?—A. Are we speaking of Saskatoon or Moose Jaw?

Q. Moose Jaw. You can get that information, if you do not know off hand, Mr. Mansur, but I would like to have it. A. My recollection, Mr. Thatcher, is that Mayor Lewrey, and Saskatchewan officials and ourselves sat down and decided with what land was available, and in light of the circumstance and the applications on hand, that 75 units were an appropriate number to start with. The project has been finished for almost a year. Only today I was looking at a report written by Dr. Peabody, the city health officer, who commented on the lack of applications in Moose Jaw for this public housing. It would appear that the combined judgment of the city, province and indeed Central Mortgage, was pretty good on this subject because we proceeded with 75 public housing units which seems to be just about in balance with the demand for public housing units in Moose Jaw.

Q. Mr. Mansur, would you check that and see if that information is correct for me for tomorrow? I have had a good deal of correspondence with the mayor and others suggesting that they have substantial applications which have not been dealt with. Who has not dealt with them, I don't know. I would like to find out if it is the provincial authorities or Central Mortgage.

One further question at the bottom of the page, there is a project at Moose Jaw now under negotiations, what is that?—A. Land assembly on the North Hill.

Q. Will that entail more houses being built?—A. No. the proposal under consideration is that one thing Moose Jaw needs very badly is serviced land which could be made available to builders and prospective home owners. The province, city and ourselves think it would be a good idea if we made this serviced land available and that is what is under negotiation at the moment.

The CHAIRMAN: The question you asked was with respect to public housing?

Mr. THATCHER: Yes.

The CHAIRMAN: Thank you, gentlemen. On Thursday we will hold two meetings and it is hoped that the examination of Mr. Mansur will be completed at the end of that time. There is the possibility that the following week we will have to sit every day. There is an urgency about the bill that every one of you appreciates. I hope it will not be necessary to sit every day, but if it does become necessary I will ask for your cooperation.

Canada, Banking and Commerce,
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

CAIX 13

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

THURSDAY, FEBRUARY 11, 1954

WITNESS:

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

MINUTES OF PROCEEDINGS

THURSDAY, February 11, 1954

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Bennett (*Grey North*), Cameron (*Nanaimo*), Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hees, Hellyer, Henderson, Hunter, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, McIlraith, Monteith, Noseworthy, Philpott, Quelch, Robichaud, Thatcher, Weaver, Wood.

In attendance: Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Mansur tabled three documents being the answers to questions asked by certain members at a previous meeting and reserved for detailed reply, viz:

Mr. Noseworthy: Net rental Insurance Projects, financed under Sec. 43, and Contracts issued, 1948-1953.

Mr. Thatcher: Applications for new rental housing in Moose Jaw, Saskatchewan.

Mr. Weaver: Applications for veterans' houses in Flin Flon, Manitoba.

The said documents were ordered to be printed as *appendices* to this day's evidence and are to be found as *Appendix "A"*, *"B"* and *"C"* respectively.

The examination of Mr. Mansur on his statement presented to the Committee on February 2 was continued. (*See Minutes of Proceedings and Evidence No. 1, Tuesday, February 2, 1954*).

During the course of the examination and in reply to a question, by Mr. Fleming, Mr. Mansur tabled the following document:

"Schedule of Monthly Mortgage Payments and Required Annual Income".

The said document was ordered to be printed as an appendix to this day's evidence, and is to be found as *Appendix "D"*.

In answer to a further question the witness tabled a statement entitled: "The Premium Scale for Insured Loans"; the said statement was ordered to be incorporated into this day's evidence.

At 1.05 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 3.30 o'clock p.m. The Chairman, Mr. David A. Croll, presided.

Members present: Messrs. Balcom, Benidickson, Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hees, Hellyer, Huffman, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, McIlraith, Monteith, Philpott, Quelch, Rouleau, Stewart (*Winnipeg North*), Thatcher, Weaver.

In attendance: Same as at the morning sitting.

The Committee resumed consideration of Bill 102.

Mr. Mansur tabled a chart entitled:

"Home Ownership Income Relationship to Down Payment and Interest Rate".

The said chart was ordered to be printed as an Appendix to this day's evidence and is to be found as *Appendix "E"*.

The examination of Mr. Mansur on his statement of February 2 was continued.

At 5.35 o'clock p.m. the witness was retired, subject to recall, and the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, February 16, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 11, 1954

11:00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. I have three answers here. First there is the answer to a request from Mr. Noseworthy for rental insurance projects approved under section 43, and contracts issued, 1948 to 1953.

(See Appendix "A")

There will be copies for all of you. Next was a question asked by Mr. Thatcher, and I have the answer which will be placed in the record today.

(See Appendix "B")

Mr. Thatcher may wish to see it, and if so he will have an opportunity to do so now.

Thirdly, I have an answer for Mr. Weaver on Flin Flon. Mr. Weaver may now have an opportunity to look at it and it will be placed in the record.

(See Appendix "C")

I hope we shall be able to conclude with Mr. Mansur today. Every part of his statement is now available to the members of the committee for questioning. We have a very heavy schedule ahead of us and it looks as if we will be holding hearing for weeks yet. Perhaps next week we shall have to sit every day including Wednesday afternoon and Friday. It is very important that this bill be reported out of committee as soon as possible. All of you know the reasons for that.

I have the following names on my list: Messrs. Hees, Cannon, and Hunter. I shall call on Mr. Hees first. Then I have Mr. Thatcher, Mr. Johnston, and Mr. Fleming, who have just indicated their desire to question the witness. Mr. Hees, if you please.

Mr. David Mansur, President, Central Mortgage and Housing Corporation, called:

By Mr. Hees:

Q. Mr. Mansur, you have made it possible for defence workers to obtain housing with a 10 per cent down payment. What has been your experience in that regard? Has there been anything unsatisfactory in regard to their being able to carry out their payments? What has been your experience with these workers?—A. Generally, Mr. Hees, it has been satisfactory. We have been careful, in our approval of home owners, to see that their income is sufficient to meet the debt service. As yet I do not think we have a default of any kind which gives signs of trouble.

Q. You say that has proved to be satisfactory as far as defence workers are concerned. There is a larger number of people—certainly many more people in the lower income brackets wanting to buy houses of their own. What would be your objection to making the 10 per cent down-payment

available generally to all workers in order to make it possible for them to buy new houses?—A. Whether it is 20 per cent, or 10 per cent, or 5 per cent down payment is not a matter to which I have objection nor a matter which I decide. I think that is purely a matter of government policy.

Q. But to date, in your operations, you have found nothing unsatisfactory so far as Central Mortgage is concerned with a 10 per cent down payment; and you do not find that the people who buy houses are in too low income brackets and in no way have you found them to be unsatisfactory as owners of houses?—A. Our experience is quite short, but as I said earlier, to date, our experience with defence workers' loans has been very good.

Q. You would foresee no difficulty then if the government did decide to allow all workers to buy houses on a 10 per cent down payment basis? You would see no reason to foresee trouble. Is that right?—A. I think it is very difficult for me to express an opinion on that, because indirectly I think I am being asked to comment on government policy and, Mr. Chairman, I think it would be improper for me to do so.

Q. Well, Mr. Mansur, it is government policy to allow a 10 per cent down payment to a certain type of worker in our population. I ask you if you can see any reason, from your experience with that type of worker, why we should expect any more trouble by allowing the same kind of treatment to workers generally, because to me it is very desirable to have a 10 per cent flat down payment in order to allow many more people to buy houses. I ask you for your opinion. Do you foresee any trouble with making a 10 per cent down payment generally, from your experience as President of Central Mortgage and Housing Corporation and not as a member of the government?—A. I believe that in the long term cycle there would be greater incidence of default by reason of smaller down payments, and the losses might be greater by reason of the larger loan. Whether that is desirable or not, I do not know. That is a matter for the government to determine.

Q. But from your experience so far with defence workers, Mr. Mansur, there is nothing really to back up that view except your feeling that it might be so?

The CHAIRMAN: Mr. Hees, you asked him for his view and he gave you his view and that is that.

Mr. HEES: I am just trying to clarify it, Mr. Chairman.

The CHAIRMAN: You asked him for his view, quite improperly, I think; but I thought that if he wanted to answer your question he could contribute something. Now you have his view and you should proceed with another question.

Mr. HEES: Are we not going to comment on Mr. Mansur's view?

The CHAIRMAN: Oh yes, but not on government policy.

Mr. HEES: I think that government policy with respect to housing is what we are here to discuss.

The CHAIRMAN: Mr. Mansur does not fix government policy.

Mr. HEES: I know that. I asked him for his experience in dealing with certain phases of it.

The CHAIRMAN: Yes, and he gave you his experience. You are free to comment on it at a later stage.

By Mr. Hees:

Q. Now, Mr. Mansur, with regard to income requirements, how is that 23 per cent limitation of a man's income arrived at?—A. Over the course of years in the mortgage business there has been some research done concerning what percentage of family income should be used for housing.

The FHA in the United States produced a rather comprehensive book called their "Underwriting Manual" in which they presented the experience of the spending of income for shelter among income groups and arrived at some conclusions as to what was a reasonable amount for the average family to pay for shelter.

From that work, which was done by FHA, and from what was concluded from our own notions on the subject, we arrived at a working arrangement with the lending institutions in respect to debt service.

I think there has been some misunderstanding as to the 23 per cent so-called limitation. The 23 per cent is an administrative instrument. Central Mortgage is not anxious to keep paper circulating between itself and the lending institutions. Central Mortgage knows that lending institutions have had long experience in the selection of credit risks. So, rather than keep paper circulating, we said to the lending institutions: "We are quite satisfied for you to use your own judgment in cases where the debt service is up to 23 per cent. But when it is over 23 per cent we think it would be appropriate if we joined you in reviewing the capacity of the borrower to carry the mortgage debt".

As a result, the lending institutions, when they receive an application, —let us say where the debt service rate exceeds 23 per cent,—they will consult us to determine whether we agree with them, that this particular applicant is able to carry the mortgage, notwithstanding the fact that the debt service is over 23 per cent.

In our operations over the last 2 or 3 years about 10 per cent of the loans approved under the National Housing Act for home owners and home purchasers the debt service exceeded 23 per cent. We feel that in the smaller community a very good case can be made for a debt service well over 23 per cent. We believe that 25, 26 or 27% is appropriate.

In our larger communities, individual cases are examined and there is no strict limitation at the twenty-three per cent level. I repeat it is an administrative matter. At over twenty-three per cent the lending institutions join with us in determining the credit rating.

Now, if I might just make one further remark, Mr. Chairman, the concept, that the twenty-three per cent, is indeed a limitation has grown in some measure from builders. The builders, on a Sunday afternoon, have a lot of people who come and look at their houses. The first question most builders ask a prospective home owner is "what is your income?" The builders know that if it meets the twenty-three per cent ratio the lending institution will deal with it immediately. If the builder has no trouble in selling all his houses he is much more likely to say to the person whose income is such to create a debt service ratio of over twenty-three percent "you have not enough income" and limit his activities to those people whose income is large enough.

Q. If a borrower has to spend 33 per cent of his income, that is o.k. with you?—A. No.

Q. You say in a smaller community you allow people over 23 per cent, but in larger centres like Toronto you would not?—A. Oh, yes. If a young engineer came around and said "I am building a house and I am working for the XYZ company and my prospects are pretty good", and the prospects appeal both to the lending institution and to Central Mortgage we would go along with him. In Ottawa, for instance, where incomes are considered to be very stable, I think that almost twenty per cent of the home owners here are in a class where the debt service exceeds twenty-three per cent. In Toronto, Mr. Hees, the figures I have, indicate that 17½ per cent of the home purchasers are in a class where the debt service exceeds twenty-three per cent.

Q. Will you consider allowing a working wife, or somebody else in the family who is working, to add their income to the household as far as working

out the income of the family is concerned—A. It is proposed under the new arrangements that there be a proportion of the wife's income allowed in the calculation of the debt service.

Q. What proportion?—A. The matter is still under discussion and of course, Mr. Hees, will be determined by the Governor in Council and not by us. I think that the range would probably be not less than fifteen per cent and not over forty per cent. I think every employer has found that there is a heavy turnover in married women, but I would not like to suggest that the discounting of her full income was a mathematical attempt to discount accurately for the domestic hazard involved. That takes some figuring.

Mr. HEES: Thank you very much.

The CHAIRMAN: What has been your experience with those loans that have exceeded twenty-three per cent as compared with the others?

The WITNESS: Mr. Chairman, I have no analysis, but I know nothing to indicate that that type of loan has resulted in greater default. The average debt service ratio in 1952 was 18·2 per cent and 1953 was 18·4 per cent.

The CHAIRMAN: Mr. Hunter.

By Mr. Hunter:

Q. Mr. Chairman, I have a question arising out of what Mr. Mansur said the other day. He said that the effective demand at present was higher than it had been for several years and I am wondering in view of that why this Act contemplates the lower down payment and longer term of repayment if the effective demand is so high today?—A. The changes contemplated by Bill 102 in reducing the down payment should have the effect of increasing the effective demand at a time when it is very high. Probably were there no other consideration, such a step could be considered unwise, but there is another consideration. I believe that the object of Bill 102 is to widen the band of people who can enter the market for the new small houses. In the past for a \$10,000 house a \$2,000 down payment was required. In the future it is contemplated the field will be widened so that people with \$1,400 can purchase that house. I would say, Mr. Hunter, that if there were economic objection to the change in the amount of down payment there is probably a very good social reason for the change.

Q. I have one other question. Mr. Hees pointed out loans for defence workers were ninety per cent and he intimated that would broaden the field of those who could come in and purchase houses. In fact does it not narrow it by increasing the carrying charges to the point that it narrows the field of those who can indulge in a house of that price?—A. Yes, Mr. Hunter. There are the two factors. There is the ability of the prospective home owner to find the down payment and also the ability to carry the debt service. If the down payment decreases, arithmetically the debt service increases, so that it may be that there will be fewer people able to meet the debt service as a result of the lowering of down payments and thus, overall, the arrangement may not change a great deal. There is no particular reason for a man who has the \$2,000 to borrow the full \$8,600 rather than the \$8,000 so that if his income is insufficient to carry the debt on the greater loan then the loan may be reduced so that he can carry the debt. Indeed under the National Housing Act a great many loans have been reduced for exactly this reason.

Q. Then you have not got a low down payment?—A. Well, in the bill 102, the situation is eased considerably by reason of the lengthening of the amortization, and roughly the debt service will be about the same notwithstanding the increase in loan from \$8,000 to \$8,600 at the \$10,000 level.

Q. One more question, if I may, Mr. Chairman. What has been your experience as to what prevents a man from buying a house? Is it a lack of

down payment mostly, or the lack of ability to carry the debt service?—A. I think that varies by area. At the present time builders report to us that in Hamilton the trouble is the ratio of debt service to income. In other areas builders seem more concerned about the amount of the down payment. I don't think I could outline accurately the reasons for the inability of people to buy houses. I would guess, however, that there may be an approximate balance between inability to carry the debt service and lack of cash for the down payment.

The CHAIRMAN: Mr. Thatcher? Gentlemen, we have a very long list. Will you try to limit yourselves to not more than five minutes the first time around.

By Mr. Thatcher:

Q. Mr. Mansur, further to the questions of Mr. Hunter, I wonder if Central Mortgage has estimated how much the cost of houses will be up under the new arrangement because of the various charges—the fact that the down payment has been lowered, the fact that the buyer has to pay the insurance premium, and so on?—A. Well, Mr. Thatcher, it is very difficult to answer that question accurately because I, like yourself, do not know the interest rate which will be involved. There is a difference in the monthly payment of about \$1.30 for each quarter of one per cent difference in the interest rate. However, if we take, say a \$10,000 house, under the present arrangements at $5\frac{1}{4}$ per cent the monthly mortgage payment on a 20-year basis is \$57.68, after making allowance for an additional loan of \$600. Now, it is perfectly true, under the N.H.A. at the moment, a borrower can only get \$8,000, but if we are going to compare it to the \$8,600 loan which the borrower will be able to secure under bill 102, then I think you must make allowance for a like amount of money which is borrowed. Now as compared to that \$57.68, under the new arrangement with a lending value of \$10,000, an equity of \$1,400, a basic loan of \$8,600, an insurance fee of \$172, and therefore a total N.H.A. loan of \$8,772, the monthly payment at $5\frac{1}{4}$ per cent would be \$52.28; at $5\frac{1}{2}$ per cent the monthly payment would be \$53.54; and at $5\frac{3}{4}$ per cent the monthly payment would be \$54.89. I apologize for using those three rates, but they are the range indicated by the Minister when he spoke in the House.

Mr. HELLYER: What is the range of amortization on that?

The WITNESS: In the latter case, that is in the case of bill 102, 25 years. I have compared it with the usual 20-year amortization period under the present N.H.A. arrangement.

By Mr. Thatcher:

Q. What I was trying to get at was one figure that the cost of the house will be increased by under this scheme as compared to former schemes. Would it be \$500 over the whole period, or \$600 or \$700? It seems to me it would be in that neighbourhood.—A. The cost in my two examples.

Q. The cost to the purchaser because he has to pay an insurance premium and because the interest rate is going up?

The CHAIRMAN: You mean the ultimate cost?

Mr. THATCHER: Yes.

The WITNESS: Mr. Thatcher, for this example we have been using an insurance premium of \$172. That is the additional cost. Now, to the extent that the interest rate is greater than $5\frac{1}{4}$ —and I do not know whether it will be greater than $5\frac{1}{4}$ —the extra which the borrower pays on a blended payment, is approximately .25 cents per thousand per month for each half of one

per cent increase in interest rate. For instance, on an \$8,000 loan with an increase and interest rate of $\frac{1}{2}$ of 1 per cent involves an extra payment of \$2 a month.

By Mr. Thatcher:

Q. At least it would be a fair statement to say the ultimate cost of the purchaser is going to be substantially higher than it was under the old scheme, is that not fair?—A. If the interest rate is the same as presently under the National Housing Act, and if the term of amortization is the same, then the increased cost in this example we are using is \$172.

Q. Yes, but that is assuming the interest rate is the same. Even then, it would not be so, however, because you have interest on the \$172 to pay, and on top of that you have a lower down payment. I do not want Mr. Croll to cut me off—

The CHAIRMAN: I have no thought of cutting you off, Mr. Thatcher. I am very much interested in what you are saying.

By Mr. Thatcher:

Q. One further question. The statement which was made in the House, Mr. Mansur, that a man would have to have an income of \$3,860 to qualify under the Act. The minister did not contradict that. In your opinion is that correct? The statement appears on page 1371 of *Hansard*.—A. Mr. Chairman, I have with me a schedule of monthly mortgage payments and required annual incomes at interest rates from 2 per cent to 6 per cent for houses costing \$10,000 and \$12,000, and I think, Mr. Chairman, that the schedule will answer the question. I would like to say that it is based on a 23 per cent ratio of debt service to income. If the lending institution and ourselves agree, that the ratio of debt service shall be 25.3 per cent, then the income required to carry the house is reduced by 10 per cent or vice versa.

Q. Mr. Mansur, I do not want to become confused, but can you tell me if that statement is correct or if it is not correct? The statement was made that a man must have an income of \$3,860 to build a house under the new plan?—A. I do not recall, Mr. Thatcher, what interest rate was used.

Mr. HEES: Your department worked that out. Maybe they used the old interest rate, I don't know, but it was your department that worked that figure out for me, and I asked what minimum income would be required, or in other words what income I would have to have if I were going to buy a house. I assumed I was purchasing one for \$10,000 and they worked it out for me.

The CHAIRMAN: Mr. Thatcher, continue please.

Mr. HEES: Is that schedule Mr. Mansur just mentioned going to be added to the record?

Mr. NOSEWORTHY: Have you copies of that?

The CHAIRMAN: Mr. Thatcher, one moment please. I wish to advise, gentlemen, that copies of the schedule of monthly mortgage payments required by annual incomes will be distributed to you. Go ahead, Mr. Thatcher.

(See Appendix "D".)

Mr. FLEMING: What is the use of putting it on the record, if it only contains percentages worked out on 2 per cent interest rates?

The CHAIRMAN: I feel it will be useful.

The WITNESS: The figures run from 2 per cent to 6 per cent.

By Mr. Thatcher:

Q. Mr. Mansur, if the figure of \$3,860 is correct, which has been computed—I have those statistics of 1952, the last year I could get, and I find that over two million taxpayers earn less than that amount per year—only about eight per cent of Canadians are going to have sufficient income to qualify for that.

Mr. McILRAITH: That does not follow.

Mr. THATCHER: I want to be shown if I am wrong.

The CHAIRMAN: Let the witness answer now.

The WITNESS: Mr. Thatcher, I do not know which figures you are using, but perhaps I could introduce a new set of them. In my earlier evidence I mentioned that there were four million families and non-family household groups in Canada. Disposable income in the hands of Canadians this year will approximate \$18 billion. Assuming for the moment—which is not quite correct—that virtually every Canadian lives in a family or a non-family household, that would bring you out by division to an average income per family unit or non-family unit of \$4,500. If you deducted from the gross personal income the personal taxes you would come to a figure of \$16,600,000,000, which, divided by four million, is \$4,150. I think that averages are extremely difficult. I just submit mine as a counter set of figures to the ones which you have put forward. I do feel, in looking at this problem, that one must remember that a great many families in this country have multiple incomes, and if the figures which you suggest are correct and have full application to the problem we are considering, then it seems very difficult to understand how in the past year effective demand disposed of some 105,000 units.

Mr. THATCHER: But, Mr. Mansur, if \$3,860 is the required income, 90 per cent of Canadians cannot qualify under this Act, from the government's own statistics.

Mr. McILRAITH: No.

Mr. THATCHER: The statistics speak for themselves.

Mr. McILRAITH: That is what they do not do. What you are saying—

By Mr. Thatcher:

Q. Ninety per cent of Canadians do not make that income per year. That is what they report to the income tax. But it seems to me that this new Act is only nibbling at the problem if only eight per cent of the people qualify. What other features are there?—A. The ones I have just quoted.

By Mr. Cameron:

Q. Where do you get them from, unless you have the figures on income?—A. They are from the national accounts, and the national accounts are public figures.

Mr. McILRAITH: They are appended to the budget each year.

Mr. THATCHER: These are Doctor McCann's figures.

Mr. McILRAITH: That is the income tax registration.

The CHAIRMAN: You will always find something—

Mr. THATCHER: That means that under the new Act only eight per cent or ten per cent will qualify?

The CHAIRMAN: The witness does not agree with you, so the mere reassertion does not help you any. Just while you are at it, he did tell Mr. Hees that, up to twenty per cent of the loans made did not take into consideration the 23 per cent ratio of debt service to income.

Mr. FLEMING: What period?

The CHAIRMAN: I thought he was talking about last year, 1953.

The WITNESS: In Toronto, I might mention the figure was 17.6 per cent; in Ottawa it would be somewhat higher. I think that our average for last year of home owners and home purchasers whose debt service exceeded 23 per cent would be of the order of 12 per cent.

The CHAIRMAN: Twelve instead of twenty. Mr. Johnston.

Mr. JOHNSTON: I would like to ask a question with regard to these advances. You referred to them on page 24.

The CHAIRMAN: We cannot hear you.

Mr. JOHNSTON: On page 24 you made references to the advances.

Mr. FLEMING: Page 24 of what?

The CHAIRMAN: It must be the evidence.

By Mr. Johnston:

Q. Near the bottom of the page: "The timing of advances will be adjusted to suit the requirements of the borrower, builder and lender"; and then in the last paragraph you have this to say: "If, during construction, an inspector of the corporation finds compliance infractions by way of departures from approved plans or minimum standards, Central Mortgage advises the builder and the lender that such deficiencies must be remedied", and so on. Now, we come back to that term "compliance" again, and I suppose that is compliance with the requirements which were set down by Central Mortgage?—A. Standards, plans and specifications, Mr. Johnston.

Q. Yes, in general the standards which are outlined in that book?—A. Correct.

Q. Now, what is the purpose of these inspections in relation to advances?—A. The compliance inspections are independent of the inspection to determine a mortgage advance. It is perfectly true that the compliance inspection and the inspection to determine a mortgage advance may be done at the same time by the same inspector, but they are independent operations.

Q. Do I gather from that, Mr. Mansur, that you say it may be done by the same inspector—you would not have two inspectors?—A. No.

Q. So we can assume it will be done by the same inspector on the same building. Now, when the inspector goes to ascertain whether or not that building has been built according to inspection requirements— I have no hesitation in saying that I think the standards are all right if they are followed—now, if that building does not comply with the standard set down by Central Mortgage, would there be an advance made?—A. It would depend, Mr. Johnston, as to the nature of the item of non-compliance.

Q. Do you mean to say that the builder does not have to follow these requirements?—A. Indeed he does, Mr. Johnston, but I think the thing to remember is that there are a lot of conscientious builders in this country who are just as concerned as both you and I are concerned about the nature of the job which they are doing. Now, if we are doing business with a conscientious builder and we go on the job and find that the header over the window has not been properly fabricated and we bring it to the attention of his foreman, he will probably say, "That is terrible; the workman should have done it properly; I will look after it right away." If we never had any trouble with that builder, we are certainly not going to tell the lending institution that under the circumstances no advances shall be made to that builder.

Q. But suppose in those instances where you find that only a single header was made over the window where the specification called for a double

header, would it not be the duty of Central Mortgage to say to the builder on this occasion, "You must correct that error"? I do not think that should be.—A. No, the items of non-compliance, under the system which we propose, Mr. Johnston, will be listed and a copy of them will be given to the builder and a copy to the foreman or superintendent on the job. I mean a copy of the list of items that must be corrected; and our inspector will make a point of following up the outstanding non-compliance items. He will return to those buildings to see that the items of non-compliance have been corrected. And I would emphasize again that in attempting to carry this out there are builders and builders.

Q. Oh yes, that is so.—A. I believe that a sensible administration should make allowance for the fact that there are builders and builders. I can assure you that we are going to do our best to fulfil what you have suggested. But I do not think we will be able to do it perfectly.

Q. I am not suggesting, Mr. Mansur, that a perfect job will be done. But I am speaking of important readjustments that should be made. What I am trying to get across to you—and I am not doing it in any fancy way—is that when a Central Mortgage inspector goes to a building and finds that the building is being completed—allowing for a small deviation, let us say, 95 per cent according to the specifications and plans generally, then it should be considered that there was no major wrong in that building.

I recognize what you have said, that there are owners and owners, and they are not always easy to satisfy. But in my judgment I do not think we should necessarily build a building to meet all the fancies of an owner. I think—and I believe you will agree with me—that if we put out a book of standards, then our Central Mortgage inspectors should say whether or not these standards are complied with within reason. If that is done, I would be most happy; and I would not hesitate to say that if an "on the job inspection" were carried out by Central Mortgage that it should be quite satisfactory. But, as you have said, there are builders and builders. I agree with you. Some builders are very conscientious but others are not so conscientious. There are some big builders too—I am not going to name them to you. Perhaps you know some of the ones I have in mind. There are big contractors who just do not follow out the standards. And I think that if there is going to be a little stricter inspection, then the Central Mortgage inspections should be sufficient. Of course, if the builder wants to have an inspection made on his own, that is entirely up to him. But I believe that if we provide proper inspection, then there is no need for any more inspections.

Now, turning to another subject, when advances are made—supposing a contractor is building 10 houses and he sells them at different stages of construction. As soon as he sells a house, then the new owner becomes responsible for the loan which is attached to that house. Is that not correct, Mr. Mansur.—A. Yes, that is correct.

Q. Now, when advances are permitted by Central Mortgage, is there any control as to how the loan company makes its advances from the pool of money on those 10 houses?

Let me illustrate. Suppose there are 2 houses sold. You and I may each have a house out of the 10 houses; and when the houses are bought by us, with the other 8 still remaining in the group, can the mortgage company legally or otherwise take money out of my mortgage and put it on your house?

The WITNESS: I can see what you are getting at, Mr. Johnston. I have at least five times during my experience got into trouble on this very score.

Under the new arrangement let us say there are 10 houses in a project. They are being built by a merchant builder to be sold to 10 different owners. Ten mortgage deeds are registered. Under the proposed arrangement we will

be issuing ten progress estimates to the approved lender, upon the strength of which he may make progress advances which will be insured under the terms of bill 102.

The type of difficulty which you mention is certainly not anticipated in the new arrangements. In fact, guarding against it is contemplated under the scheme. It is usually the result of a fairly lax system of advances where an inspector goes "on site", and sees that since the last inspection \$20,000 of work has been done, and therefore recommends an advance of, let us say, \$17,000, without paying too much attention as to how that \$17,000 is divided among the 10 houses.

The new system, Mr. Johnston, should protect the very point which you raise, and will protect it, when it is operated in the manner in which it is planned.

By Mr. Johnston:

Q. Now it is going to be—I think that is what you said—it is going to be the responsibility of Central Mortgage and Housing to see that no borrower has moneys which he is insured for, spent on somebody else's houses.—A. There is no responsibility.

Q. That is a very important point, I think.—A. It is a very important point, Mr. Johnston. I quite appreciate the difficulty which you have raised. I would like to remind you, however, that the privity of contract is between the borrower and the lending institution. Our sole relationship to the transaction is that we are guaranteeing the progress advances as they are being made. But to the extent that the borrower has his rights prejudiced by improper advances by the lending institution, then his recourse is to the lending institution.

Q. What is that recourse?—A. It is the normal legal recourse. Perhaps some of the lawyers here might want to come to my rescue on this point.

Q. Did you not say previously that there were not enough good lawyers to go around.

The CHAIRMAN: It was architects, not lawyers.

Mr. NOSEWORTHY: There are lots of lawyers.

The WITNESS: Perhaps I should say that all our advances will be approved on a "per-house" basis and not on a "per-project" basis, and I think that will help the situation to which you have referred, Mr. Johnston.

By Mr. Johnston:

Q. I think that policy would be much more satisfactory. But it should be understood, and I think it is understood by you, that the only recourse which the individual owner has in a thing like this, is to the law. He could prosecute the mortgage company, but he generally has not got the finances to do so. We found that, to our sorrow, in other cases. He just did not have the money with which to go to law.—A. I do not honestly believe that the average borrower in Canada has to go to law with our approved lending institutions.

Q. Some of them have had to do so.—A. I think, by and large, that approved lending institutions who have operated under the Act, are a pretty responsible group of people.

Q. I would not want to contradict that statement, Mr. Mansur, but there has been the exception.—A. And I think that the prospective approved lenders are also a fairly responsible group. I cannot believe that the approved lenders are not just as honest in every way, shape or form as the prospective home owners under the National Housing Act loans.

Q. I would say generally that you are right; but when it comes to individuals, you may be wrong. In my judgment you are wrong in one particular case which I have in mind.

The CHAIRMAN: Have you any more questions now, Mr. Johnston? I have a long list here?

By Mr. Johnston:

Q. Yes, I have, Mr. Chairman. I would like to ask a few questions in regard to default. Mr. Mansur and I are generally in agreement that if the regulations are followed in regard to advances, it will be an improvement. I hope that the suggestion Mr. Mansur had made will be carried out, and I am sure, as far as he is concerned, it will be.

Now, I come to the subject of default, and I see on page 25 of your evidence it says:

The debtor may elect to abandon the property and give the lender a quit claim deed with or without cash consideration.

Now, just what does that mean?—A. Mr. Johnston, in the period when we had defaults in the “thirties”, borrowers used to come in and say “I am sorry I cannot carry this house, here are the keys and I will give you a quit claim.” It is usual mortgage company practice to make that man, who has been good enough to come in and satisfy the debt at least by quit claim, some payment to assist him in his moving expenses. During the “thirties” the practice pretty generally was that when the borrower wanted to settle his financial responsibility by quitclaim deed to the mortgage company, the mortgage company made him a cash payment which was perhaps a proportion of the legal expenses which would have been incurred had the mortgage company been forced to take foreclosure action.

Q. In the case of default where a man either voluntarily or involuntarily must forego his rights or investment, is there provision made whereby he is reimbursed for his equity in the property?—A. No. The word “foreclosure” means the “foreclosure of the equity of redemption of the borrower” and if the foreclosure takes place the borrower has no further interest in the property. If, however, as is quite often the practice in the Province of Ontario one proceeds under power of sale, then there is an accounting due to the borrower for any profit which may result from the disposal of the premises by the mortgagee.

Q. Do you not think it would be a good thing if there was some provision made whereby, say if a man gets his house three-quarters finished and then for some unknown reason—I was going to say there might be a depression starting, but I know the chairman would contradict me—but, suppose such a thing as that happens, do you not think it would only be proper under the law we are now contemplating changing to have some provision in it whereby the borrower would be entitled to his fair equity in the place without closing him out.

Mr. HUNTER: What is fair equity?

The WITNESS: If the concept of a mortgage is a pledge on property to secure a debt, I see great difficulty in attempting to do what you suggest, Mr. Johnston.

Mr. JOHNSTON: This Bill 102—

The CHAIRMAN: Mr. Johnston, I do not want to interrupt your line of questioning but how many more questions have you, a number of members would like to ask questions.

Mr. JOHNSTON: This is my last question.

By Mr. Johnston:

Q. Under Bill 102 we are proposing now that the lender be guaranteed or insured at the expense of the borrower. It does seem to me that it is only fair that when the borrower is required to insure the lender's investment where on a \$10,000 house with a lending value of around \$8,000 he pays around \$160 for that insurance, it seems to me he has a right, or should have a moral and legal right to have a fair amount of his equity in that house returned. I would hope you would give that consideration.

Mr. FOLLWELL: I have a question following Mr. Johnston's line of thought.

Mr. JOHNSTON: I wish the witness would answer that question.

The CHAIRMAN: It is turning over in his mind.

Mr. JOHNSTON: Perhaps you would let the witness say whether or not he is turning it over in his mind.

The CHAIRMAN: I am sure he is.

The WITNESS: It is being turned over in my mind so that I may properly communicate it to the Minister responsible for such matters.

Mr. FOLLWELL: Following that line of thought, only in reverse.

The CHAIRMAN: I cannot let you get into reverse so quickly. There are five ahead of you.

By Mr. Follwell:

Q. I just wanted to ask the witness if prosperity is going to continue whether the borrower can retire the mortgage prior to the contract date without notice?—A. The proposal is he shall have the right of prepayment of ten per cent of the principal outstanding at the end of each of the first two years, and at the end of the third year and thereafter he shall have right of prepayment in part or in full of the whole with three months bonus of interest in lieu of notice.

Mr. FLEMING: I would like to ask you some questions in general about your experience with various aspects of Central Mortgage up to the present time. What has been your experience with rental insurance in the limited field in which it has existed up to the present time?

The WITNESS: There are about 21,000 units. The experience has been good. The increase in rents and the increase in construction costs have corrected the mistakes we have made in rental insurance cases which have been quite a few.

Mr. FLEMING: What is your comment on the adequacy of a two per cent premium?

The CHAIRMAN: Do you mean under Bill 102?

Mr. FLEMING: No.

By Mr. Fleming:

Q. I am speaking of your experience up to the present time. I am not on the bill, Mr. Chairman. I have been asking for Mr. Mansur's experience with rental insurance in the limited field in which it has applied?—A. Is the two per cent insurance premium you speak of the rental insurance or the insurance contemplated under Bill 102?

Q. No. I am speaking of your experience hitherto.—A. Your question is whether or not the experience hitherto would seem to justify the two per cent premium for home owners contained in the bill. We, in considering the premium which would be recommended for use in Bill 102—and I may say that the government accepted our recommendation—had the experience in the United States to be guided by. They, as you know, charge a premium of a

half of one per cent on reducing balances. We felt that with Central Mortgage, with its other revenues and eliminating certain of the administration costs by reason of a single premium being charged, rather than the expensive half of one per cent on reducing balances, that it probably would be prudent to contemplate the capitalization of an annual premium considerably under that which was provided in the United States. Now, Mr. Chairman, I have some copies available of a statement on that very subject. It might save time if I went through the statement because I think the points raised by Mr. Fleming are covered in some detail in this statement.

The CHAIRMAN: Gentlemen, I propose to put this statement on the record and then let Mr. Mansur deal with it in short form here. Mr. Mansur can give us the highlights.

Mr. FLEMING: Would it save time if the statement were put on the record now which would give us time to read it before this afternoon?

The CHAIRMAN: Alright.

THE PREMIUM SCALE FOR INSURED LOANS

The committee may require information as to how the premiums stipulated in section 6 of the bill were calculated and would be interested in a brief comparison of them with the scale in operation under the F.H.A. system of mortgage insurance in the United States.

For residential construction, the bill covers three types of insured mortgage loans in both the home-owner and rental fields, i.e., six types in all. These may be summarized as follows, the percentage listed are charged on the amount of the loan disbursed.

<i>Loans for Home- Ownership</i>	<i>Paid by Borrower</i>	<i>Retained by Lender</i>	<i>Remitted to C.M.H.C.</i>
1. Completion loan where borrower does not require progress advances.....	1 $\frac{3}{4}$ %	nil	1 $\frac{3}{4}$ %
2. Loans where borrower requires progress advances but lender does not want the advances insured against loss ..	2%	$\frac{1}{4}$ %	1 $\frac{3}{4}$ %
3. Loans where borrower requires progress advances and the lender requires that advances be insured by C.M.H.C.	2%	nil	2%
<i>Loans for Rental Housing</i>			
4. Completion loans where borrower does not require progress advances	2 $\frac{1}{4}$ %	nil	2 $\frac{1}{4}$ %
5. Loans where borrower requires progress advances but lender does not want the advances insured against loss..	2 $\frac{1}{2}$ %	$\frac{1}{4}$ %	2 $\frac{1}{4}$ %
6. Loans where borrower requires progress advances and the lender requires that advances be insured by C.M.H.C.	2 $\frac{1}{2}$ %	nil	2 $\frac{1}{2}$ %

From these figures, it will be noted that the insurance risk is two-fold, first the risk during the period of construction for which a premium of $\frac{1}{4}$ per cent is charged. Secondly, the long-term risk during the life of the loan after the housing is completed, this risk being the danger of loss owing to property depreciation and owing to adversity occasioned by depressed economic conditions. The premium to insure against this risk is $1\frac{3}{4}$ per cent in the home-owner class and $2\frac{1}{4}$ per cent in the rental field. The premium is higher in the rental field as weighting has been given to the lack of "home-owner-amenity-appeal". In other words, in the rental field, there is an investment motive only, whereas in the home-owner area there is added safety occasioned by the natural desire of an owner to try and keep his home regardless of property value fluctuations.

You will note that the bill provides for a lender to retain a portion of the premium if it wishes to be a "self-insurer" for progress advances. This will have little appeal to the banks, which, I am sure will require insurance on all advances made. However, the present lending institutions, have competent appraisal and inspection organizations which they will continue to need for their conventional loan business. If they wish to use this staff to estimate their own progress advances, they are free to do so. The portion of the premium enables them to be a self-insurer, but as a protection to the borrower the portion of the premium is available only if at least four progress advances are made available to the borrower. I should stress, however, that the approved lenders have full freedom of choice. We will insure all advances made by them, in return for the full premium. The regulations will provide, however, that the choice must be made on a territorial basis so as to prevent selection against C.M.H.C. In other words, if the lender wishes to be a self-insurer for advances on its loans in Calgary, it must be for *all* loans in Calgary made by that lender. This will prevent C.M.H.C. from having to carry the insurance of the poorer-risk loans while the lender was retaining the premiums on the better-risk loans.

In calculating the premiums, we had to make some assumptions as there is no way of forecasting future economic conditions. Neither are there available, any statistics covering losses on monthly payment loans over a long enough period to accurately determine loss strain. Monthly payment mortgage loans were practically unknown in Canada prior to 1936 and since then economic conditions, apart from minor recessions, have been relatively buoyant. The premium scale is therefore somewhat empirical in nature.

In general, however, mortgage lenders feel that $\frac{1}{4}$ per cent set aside from interest earnings each year, would cover most losses on a large, non-concentrated mortgage business. We discounted this by about 25 per cent for the security we felt was inherent in home-owner mortgages which called for monthly payments of principal, interest and taxes. This gave us a base premium of $\frac{3}{16}$ per cent per annum. To apply such a scale, whereby the borrower would pay $\frac{3}{16}$ per cent on the reducing balances *each* year would have produced many complications, both accounting and otherwise. Moreover, we ascertained from F.H.A. experience in the U.S.A. that approximately 32 per cent of its premium income was spent in accounting and administration. We felt therefore that an *annual* premium was unnecessary if we could calculate a *single* premium which would cover the risk.

Our next assumption was that in general, the danger of risk could be considered practically non-existent when the loan was reduced by 60 per cent. On a 25 year loan this takes place around the 19th year.

We calculated, therefore, what the 19 annual premiums would have been, had the borrower paid them on a yearly basis, and giving the borrower credit for pre-payment, the nineteen annual premiums were discounted and thus a single premium of $1\frac{3}{4}$ per cent of the original loan resulted.

To assist the borrower in the payment of this single premium, the bill provides for it to be added to the mortgage and repaid over the life of the loan. Thus a borrower who required \$10,000 for house-building purposes would borrow \$10,200 if he requires progress advances during construction or \$10,175 if he requires only a single advance on the completion of his property.

At this point, I should perhaps make a brief comparison with the premium scale charged on similar loans under the F.H.A. in the United States.

As mentioned earlier, a very high percentage of their premium rates are used up in administration expenses. Our premium scale makes no provision for the borrower to pay any portion of the administration expenses of the insurance fund. These will be borne, in total, by the corporation from its other revenues.

The F.H.A. scale of premiums is basically $\frac{1}{2}$ per cent of the reducing monthly balances, the first year's premium is payable in advance. Commencing with the first monthly mortgage payment, the borrower pays one-twelfth of the second year's premium. Thus the premiums reduce each month in each of the 300 months of a twenty-five year loan. Thus on a \$10,000 loan, the borrower would pay an *initial* premium of \$49.48 and in the *first* year would pay \$4.03 each month to build up a fund for the second years' premium. The premiums would reduce each year until they became practically zero in the 300th month.

As our proposed basis of calculation is approximately $\frac{3}{16}$ per cent of the reducing balances for home-owner loans as compared with the F.H.A. $\frac{1}{2}$ per cent, our premium scale is only about $37\frac{1}{2}$ per cent of the rate charged to similar home-owner borrowers in the U.S.A.

The proposed scale for rental properties is about $\frac{15}{64}$ per cent of the reducing balances as compared with the F.H.A. $\frac{1}{2}$ per cent, i.e., about one-half of the U.S.A. scale on similar properties.

Only time can show the sufficiency of the premiums being charged but I feel that the scale is basically sound.

The WITNESS: I think that will give you a fairly complete answer to your question.

By Mr. Fleming:

Q. The next point is, what has been your experience with control of the sale price of houses.—A. We have had some doubts, Mr. Fleming, about how effective the maximum sale price provision really has been. There are various schools of thought in our organization as to the degree of effectiveness. The most optimistic think it is perhaps 95 per cent effective. The most pessimistic think in terms of it being perhaps 75 per cent effective. I believe the large merchant builder, who after all does account for a very high proportion of the houses has followed it rigidly. We hear of cases where there are "under-the-table" payments where the statements made by the builder and the owner are incorrect. We do a certain amount of "policing". I do not think the arrangement is 100 per cent perfect, but I do think the arrangement is much more effective than I anticipated it would be when we introduced it. I think the maximum sale price arrangement has some very real support from the merchant builder class in Canada, who also are anxious to see that houses are kept at a reasonable price and do not like the activities of some builders in trying to get the absolute limit of that which the market would bear.

Q. I take it that in general you think in the majority of cases there has been observance, but you mentioned "policing". Precisely what "policing" has Central Mortgage done? What has been the nature of the steps taken?—A. We were suspicious of one case in Ontario, so we went to the registry office to have a look at the affidavit which must be filed for the land transfer tax. We sometimes receive complaints from borrowers and we investigate those

complaints and we have a man who spends a fair amount of time on this work. The actual number of cases of evasions which he has brought to our attention rather indicates that the arrangement is rather more effective than one might suppose. I may say that of the merchant builder's building houses for sale to home purchasers in 1953, 89 per cent of them went forward under the maximum sale price arrangement, as compared with 78 per cent in 1952. But, Mr. Fleming, having said that, I do not like the arrangement. It presents all the difficulties of attempting to impose a ceiling and presents all the difficulties of the ceiling becoming a floor. Despite the benefits of attempting to insure that these larger loans do not result in larger sale prices, I have a suspicion that perhaps the maximum sale price that we put on is used by the builder something like the "Good Housekeeping stamp of approval" as to price and is represented as being the price at which the government says this house must be sold.

Q. Well, the problem is likely to widen in area, is it not?—A. I would hope, Mr. Fleming, that as soon as the volume of new houses for sale approaches the effective demand for such new houses, we could withdraw gracefully and allow the ordinary transactions of the market place to go on.

Q. The next question is as to your experience in general with the success of subsidized housing under the present section 35. Can you make a general comment as to the degree of satisfaction in your experience with subsidized housing?—A. I think as far as Central Mortgage is concerned, the experience of subsidized housing is one of continual surprises. Things just do not seem to work out as one might anticipate they would. If I might deal with the question by area, I would say that the subsidized housing project in St. John's, Newfoundland, involving some 392 units, has been highly successful. We were warned about the standard of housekeeping; the old story that coal would be placed in the bath tub, which is one of the myths that prevails, but not in St. John's. All the troubles that we expected just failed to materialize. I believe that the experience in St. John's has been excellent and it has fulfilled our highest expectations.

Now, the project in Halifax seems to be going very well. In Halifax there is a very good Housing Authority which seems to be effectively fulfilling the aims of a subsidized housing program.

In Saint John, N.B., we have been having our troubles as I indicated to you the other day.

In Moose Jaw, the arrangement has been reasonably satisfactory, although I was looking at a report only yesterday which indicates that a number of the tenants who were in receipt of a subsidy of about \$22 a month per person, are not entirely happy. I think it is the old story of people being none too appreciative of things that they get for nothing, or in part for nothing.

In the overall, I believe that the projects which we have, have followed the usual pattern of public housing as it is in the United States, and although it is full of trouble I think it has been very much worth while for two reasons: first, it has looked after a number of families who badly needed some help, and second, it has brought to the attention of all people, including the local people, that there are some problems in public housing and before a municipality launches into public housing they should review those problems very carefully.

Q. What has been your experience with the problem of low income families being admitted to subsidized housing and then finding the family income rising?—A. We have not been in the public housing business long enough to have had a great deal of experience. It is looked after of course by the local housing authority but, Mr. Fleming, in our arrangements with the local housing authority, we put in one modification which I think is going to be very helpful in that respect.

In the United States, the eligibility for continued tenancy in a public housing project is dependent on the income of the family being below a fixed figure. In the United States they have had the greatest of trouble on the very point you mentioned. At the time we entered into our first agreement with the first public housing authority, we consulted with our counterparts in the United States and asked them to examine a suggestion which we had in mind. The suggestion was this: instead of cutting off and demanding vacant possession from a family whose income has increased to say \$3,600, at or about the \$3,200 level of income, we put in a steeply graded proportion of rent to income. For instance, suppose up to the \$3,200 level the proportion has been 20 per cent, then at \$3,200 we make an addition to the rent, being 40 per cent of the gross income over \$3,200 so that as the family approaches \$3,600 they were paying even higher than economic rentals. This has the effect of encouraging that family to leave the public housing project. The American public housing authorities thought it was a very good idea and subsequently told me they were considering adopting it themselves.

Q. May I turn now to a question of lending value? You are not contemplating any change in your administration in respect to lending value, I take it?—A. I think that our approach to lending value will remain unchanged, but in saying that I would like to remind you that it is always in a continuous state of change. We feel that the present lending values are probably about right, but we think that there are certain sectors, for instance, apartment houses, where perhaps our lending values are a bit high. I think that in the operation of legislation that results from Bill 102 there will not be any major changes in lending values, although there may be some adjustments.

Q. Could you define in a sentence the relationship between lending value, as you are administering it, and cost of construction today?—A. Lending value is our best estimate of the cost of construction, included in which is a five per cent profit for the builder.

Q. Do you intend to allow in lending value the full cost of construction plus five per cent?—A. Correct.

Q. Reporting this matter of valuation, there are a couple of questions. We had some extended questioning on that matter and you stated at page 55 of the proceedings, in your evidence, that you were going to attempt to have a man within fifty miles of 90 per cent of the houses which are going to be built. How many inspectors have you today on your staff?—A. In respect to National Housing Act operations?

Q. Well, I am thinking of inspectors whose duties would be comparable to those described by you in the sentence I have just read from your evidence.—A. About 280.

Q. 280 now? How many do you reckon you are going to require to meet the problem, say, six months or a year from now?—A. Mr. Fleming, it will depend upon the volume of business. We feel that our present supply of construction inspectors will be quite sufficient to get the operation under way. As a rough yardstick, averaging for the outlying areas as against large communities, we have been thinking in terms of one inspector for every 200 units. So, if the volume under the legislation resulting from Bill 102 reached 50,000 units a year, then we think that some 250 men should do. Now, I hasten to remind you that when I say 200 units I mean 200 units on a 12-month period. The construction cycle, we hope, will be considerably less than 12 months, so that those inspectors on the average would not have 200 cards in their file at one time.

Q. You seriously think you can handle the contemplated volume, say, 50,000 houses, under this type of government assistance with 250 inspectors

for the whole of this country?—A. No, I think we will probably go more than that before we are finished and I think it might go up to 300. But, remembering, Mr. Fleming, that there is a very high proportion of this N.H.A. housing in, say, our top twenty cities where I think nearer 300 to 400 units per inspector are possible, I would hope that we would be able to look after it, and look after it well, with something in the range of 250 to 300 men.

Q. Mr. Chairman, I have a few other questions, but perhaps I had better confine myself to one more now and take my turn later on. May I come back to this subject of effective demand on which we had evidence yesterday, Mr. Mansur. In relation to the question of the cost of construction, you have mentioned this morning that with the provision made for reducing the down payment one can expect an increasing band of willing purchasers whose needs can be rated within the area of effective demand?—A. Yes.

Q. Have you any calculation as to how many will be added by this means to the total estimate you gave us yesterday of 120,000, that is, effective demand for 120,000 houses for this next 12-month period?—A. I have no estimate, but I would like to repeat what was mentioned earlier this morning, that there is a certain amount of offset by reason of debt service. I would think that the smaller down payment would widen the band of effective demand. It might be as low as 5,000 units; it might be as high as 15,000 units. I have no basis for this; it is just a feel, Mr. Fleming.

Q. I fancy it is an enlightened feel in the light of your experience.—A. Some people do not think so.

The CHAIRMAN: We think so, Mr. Mansur.

By Mr. Fleming:

Q. We take it, then, that your expectation is that the effect of this bill is going to be for a 12-month period to make it possible for between 5,000 and 15,000 families in the whole country to enter the field for the purchase of houses, who otherwise would not be able to do so?—A. Who otherwise would not want to do so. I think there is a difference between the addition to the effective demand and the number of people that the widened terms make it possible to buy houses.

Q. Do you mind enlarging on that, because I thought I was stating the question in keeping with the proper definition of effective demand?—A. Well, I think that the effective demand is our best guess of the number of people who are anxious to buy houses at a given point of time. I believe, as you do—

Mr. MACDONNELL: Anxious and able.

The WITNESS: Yes, anxious and able. It may be that at that given point of time there are more people able to buy houses than are anxious to buy houses, and I would think that those able but not anxious to buy houses should not be included in the effective demand.

By Mr. Fleming:

Q. That is really the point I am after. You are thinking of the willing and able purchasers, not just the man who has got enough money?—A. That is right.

Q. I take it that when you speak of the group that with a minimum of \$5,000 per family, or a maximum of \$15,000 per family over a 12-month period, you are speaking of families that are willing and that will become financially able?—A. That is right.

Q. This question will probably be my last at this time. It concerns effective legislation in widening the bands of willing and able purchasers. What is going to be the effect on prices of any widening of this band of effective demand which, as you pointed out yesterday, now exceeds the available supply of the likely, or total of construction in the next 12 months?—A. I think that any

widening of the effective demand—almost automatically puts an upward pressure on the price level. On the other hand, I think a continuation of a very real desire by the merchant builder for the maintenance of the maximum sale price may have the effect that this upward pressure will not have much effect upon the price level.

Q. Well, that I take it is a hope.—A. Yes, that is a hope, but I do not think it is possible to forecast it. I quite agree with you that any upward turn in effective demand should place pressure against any given price level.

Q. There always has been in this desire some offsetting effect somewhere. Is that not a fact?—A. Yes.

Q. Has there been any evidence that the lack of mortgage funds up to the present time, or of available sources including direct loans, has actually limited construction, or that houses which might otherwise have been built had there been more mortgage funds available have not been built, or are we dealing with a situation that we are coming into now?—A. No. I think that in 1953 there was definite evidence of that. I believe in the west end of Toronto, had mortgage money been flowing very freely, more houses would have been built than were built. And I can think of two or three areas in the east end of Toronto where this is also true.

The CHAIRMAN: Toronto is not alone in that respect.

The WITNESS: I can think of quite a large development in the east end of Montreal which would have proceeded, I think, much further than it did had there been more mortgage money available. By more mortgage money I mean not only more current approval of loans, but also forward commitments for loans with which the borrower might do his planning.

By Mr. Fleming:

Q. I take it we can assume, in understanding your question, that the conditions existed which would have made loans acceptable to lending institutions, if funds had been available?—A. I think the answer to that question is yes, Mr. Fleming; because in most of these cases the builder was successful in getting some loans, but not as many loans as would have suited his construction program.

The CHAIRMAN: First Mr. Fraser and then Mr. Cardin.

By Mr. Fraser (Peterborough):

Q. I really want to follow up what Mr. Johnston had to say before. I understand that Mr. Mansur in his answer said that Central Mortgage and Housing Corporation had no responsibility in regard to any defects or anything like that in a home or building?

Mr. HUNTER: No responsibility to the purchaser.

By Mr. Fraser (Peterborough):

Q. Central Mortgage will have the only inspector on the job, under this new bill?—A. Yes.

Q. Then will not Central Mortgage and Housing be the agency by which these advance payment estimates will be issued?—A. There will be estimates given where the lender wants insurance with respect to his mortgage advances. We will be issuing progress estimates for the amount of money which we are prepared to insure. Where the approved lender wishes to compute his own progress advances, we will be doing only the compliance inspections. The lender will see to the amount of money which shall be advanced, and in that latter case the advances will not be insured, and the insurance will only have effect upon the completion of the loan.

Q. In the case where it is insured, then Central Mortgage would be responsible for the defects?—A. The position of Central Mortgage will be

identical in either case in respect to compliance inspections. The compliance inspections will be done by us. To the extent that they are well done, benefits will flow to the home owner and to the subsequent home purchaser. As to inspections I think I covered the matter of responsibility rather fully the other day by reading the warning which is on the application. I think that outlines our position completely.

Q. Now, Mr. Mansur, in regard to that; you issue a certificate for payment. Suppose your inspector has not measured correctly, or perhaps has not measured at all the partitions, the stairways, or one thing and another. If they are put in, you would not be responsible for that. I mean, if a stairway, according to the building code, should be 30 inches or 32 inches, and it is put in at 29 inches. There was a case of that kind. Would not Central Mortgage be responsible?—A. Responsible to whom?

Q. Responsible to the borrower.

The CHAIRMAN: To the owner, I think you mean.

By Mr. Fraser (Peterborough):

Q. To the home owner, I should say.—A. Under the arrangement, the home owner must look to the builder himself for the fulfilment of builder's obligation to the home owner.

Q. Well then, in that case, the home owner would be wise to get somebody to check along as the building progressed, besides Central Mortgage?—A. Mr. Fraser, if he were wise, he would not enter into a contract with a builder for whom he thought that he required to have an architect for inspection.

Q. Mention has been made—and I brought this matter up before as well—in regard to the subject of direct loans by Central Mortgage in small villages, or outside large municipalities. Now, just how does that man who wants to get a loan go about it?—A. He writes in or gets in touch with our nearest office and indicates to them that he would like to get a loan.

Our office then gets in touch with him and says: "What kind of house are you going to build and where are your plans and specifications?"

Q. In the case of the property not being serviced, where there is no water or sewer, would you allow the money, if he should put in a septic tank?—A. That is correct. In fact in certain areas we have lent money where there was no inside plumbing, although we recommend in such cases that space be left in the house for later installation of interior toilet facilities.

Q. What does Central Mortgage estimate to be the average cost of taking an application and carrying that application and the building right through to completion?

The CHAIRMAN: That question was asked yesterday and Mr. Mansur answered it.

Mr. FRASER: (Peterborough): Yes, but I do not think the question was fully answered.

The WITNESS: Currently it is \$35.

By Mr. Fraser (Peterborough):

Q. \$35 per unit. You mean, to see it through, right through to the point where you are finished with it, including your insurance and everything?—A. \$35, sir, with the knowledge that while we may make a little on "the swings" in the larger communities, we will lose it on the "roundabouts" in the outlying areas.

Q. What would be your estimate with respect to a direct loan?—A. In a small outlying community, sir?

Q. Yes.—A. Nearer \$75.

Q. What percentage would that be?—A. Of course that borrower would only pay \$35. The proposal is that it shall be a flat national rate.

Q. And the rate has not, of course, been determined?—A. No.

Mr. CARDIN: My question was asked by Mr. Fleming and answered by Mr. Mansur, but I have a supplementary question.

You say "the cost of construction with relation to the lending value". Did you mean the cost of construction as estimated by Central Mortgage or by the contractor?—A. By Central Mortgage, sir.

Mr. CARDIN: That is all.

By Mr. Macdonnell:

Q. I am very much in the same position as Mr. Cardin. I was going to talk about effective demand which has been pretty fully covered. However I was not quite clear to the extent to which Central Mortgage was going to control prices. I wrote down a remark Mr. Mansur made just at the end. He said they hope to reach the stage where they could withdraw gracefully and leave prices to the ordinary transaction of the market.—A. Yes.

Q. What I am puzzled about is just what is the point at which a change arises. You seem, first of all, to speak about the control and then indicated in these words, that you hoped to get rid of them. Could you explain that a little further because that seems to me to be a very important point, and could I interject that I was also interested in the extent you thought it was effective; you gave a percentage.—A. There will probably come a time when houses, in a number of communities and perhaps all over the country, will not be selling as freely as they are today. The first manifestation of that condition will be when a house subject to the maximum sale price at say \$12,000 starts selling at \$11,500 or \$11,750. I think that would be a condition which very clearly indicates that the maximum sale price technique had outlived its usefulness. If it were possible, Mr. MacDonnell, to find a time when effective demand approximately was equal to supply of new residential units, then that would seem to be a proper time to withdraw from this arrangement.

Q. I am a home owner and I borrow and the loan is working and then I find a purchaser. Is there any limitation on the amount I can sell for?—A. No. The only limitation is in respect of the sale from the merchant builder to the original home purchaser. There was a supplementary question and I have forgotten it.

Mr. MACDONNELL: No.

By Mr. Fraser (St. John's East):

Q. Mr. Chairman, I was very interested in Mr. Fleming's question concerning subsidized housing and Mr. Mansur's answer, and it occurred to me to ask what effect if any this bill might have upon subsidized housing. Is it contemplated the effect might be to have a reduction or an increase?—A. Mr. Fraser, the clause relating to public housing in Bill 102 is a re-enactment of that which is contained in the present National Housing Act.

Q. I realize that.—A. Therefore, no change from a legislative point of view. As to an actual operating point of view—

Q. That is what I meant.—A. I do not think any very important change, because I do not think the changes contemplated in Bill 102 change the sector of the population to be covered enough to justify any anticipation that public housing would become more or less popular.

Mr. FRASER (St. John's East): Thank you very much.

The CHAIRMAN: What he is saying in effect is it depends upon local authorities, the provincial and municipal government, and we are prepared to do as much as we ever were.

Mr. FRASER (*St. John's East*): Yes.

By Mr. Noseworthy:

Q. Mr. Chairman, I would like to take one more crack at that inspection question.

The CHAIRMAN: I thought we had exhausted that topic.

By Mr. Noseworthy:

Q. I am not satisfied that Mr. Mansur fully appreciates the difficulty under which the purchaser of a house labours when he buys in a city like Toronto from a merchant builder, this idea that the responsibility is left with the purchaser and is a matter between him and the builder, or that he should not buy from a builder if he thinks he needs an architect. Now, here is what happens in the demand for houses in Toronto. A builder starts putting up a group of fifteen or twenty houses. Those houses are sold and a contract is entered into possibly by the time the cellar is dug and in some cases before it is dug. The buyers are very anxious to get in the houses and in some cases move in before they are completed. They have to make their full down payment before they move in. The builder is to finish this job up after they move in. I know of one case where the people moved into the houses a year ago. One of the projects the builder was to complete was the filling in the back. The back was very low and water would drain down there. This spring everyone of those back yards and cellars were flooded. The builder had been given a year's time in which to finish that job. He had not done it and no amount of persuasion could prevail on him to do it. I feel that Central Mortgage should assume some responsibility to see a building is either completed to specifications before the builder gets his full loan or some means be devised whereby the purchaser can look to Central Mortgage and Housing for some protection to see that he gets what he bargained for and paid for.

I do not see how it can be done, but I do not think you can just say it is left to the purchaser and the builder. I think the public demands that Central Mortgage in guaranteeing that loan should devise some way of guaranteeing the purchaser against the builder.—A. There is one way it might be done. I do not know how effective it would be. We could run a register of all complaints by all home owners—fortunately the register would not be as large as some people might anticipate—but, assuming we ran a register of all complaints by all home owners against all merchant builders, then we could institute a system of attempting to determine whether we agreed with the home owner or merchant builder. In the cases where we agreed with the home owner what we might do is to inform the builder that he has to repair and make good any defects. To the extent that he might not do so, then we might tell the builder as far as N.H.A. is concerned he is finished until there is adjustment of those cases where we agree with the home owner. That would be a logical way to do it, and I think, the most practical way. I do not think that Central Mortgage has any sanction against a builder other than that. neither do I think there is any way for Central Mortgage to guarantee or indeed take over the right of action of the owner against the builder under the provincial laws.

The CHAIRMAN: May I ask you this question? If you had a series of complaints against a builder and he subsequently applied for further loans what would be your attitude then?

The WITNESS: We would say "No" under the suggested technique.

The CHAIRMAN: What would you do now without the suggested technique if you received a large number of complaints against any individual builder and he subsequently approaches you for further loans? Would you accept him or reject him?

The WITNESS: I suggest that virtually that is being done by our local managers now, they say "No." We will continue to do so under any new legislation. What I was really suggesting to Mr. Noseworthy is that we may make it a little more formal and perhaps make what we did, publically known. Possibly that would help.

Mr. NOSEWORTHY: What I am asking you is this: I think Central Mortgage and Housing should give some consideration to supplying more security for the purchaser from the merchant builder, particularly in places like Toronto. I know you are anxious to have someone else proceed with questions and I do not know whether you will consider this question in order or not, Mr. Chairman, but in this schedule of monthly mortgage payments we received I noticed that to purchase a \$10,000 house on a 25-year amortization period at say $5\frac{3}{4}$ per cent interest rate, which is the interest rate which I think was pretty generally agreed upon in the House—

The CHAIRMAN: It was generally not agreed upon.

Mr. NOSEWORTHY: Well, let us take the $5\frac{1}{2}$ per cent interest rate which is probably more general.

The CHAIRMAN: Yes, that is a little closer.

By Mr. Noseworthy:

Q. The purchaser would need an income of \$3,663 a year. I think we all agreed here that there are a great many people who are not in receipt of \$3,600, and who need houses. There is no provision in the Act except the provincial-federal renting scheme whereby that need can be met. Has Mr. Mansur any suggestions as to how people below that income group can acquire ownership of homes today?—A. They could buy a house other than a new one.

Q. In Toronto? In the first place, the down payment on an old house is generally much higher than that required on a new one, and it is out of the question so far as most of these people are concerned.

The CHAIRMAN: You asked him a question and he answered it. There are arguments on both sides which are perfectly good. However, you asked him a question and he has answered it.

Mr. NOSEWORTHY: That is the only suggestion Mr. Mansur has for providing that income group with houses?

The CHAIRMAN: There is another obvious suggestion, Mr. Noseworthy, but it is not in Mr. Mansur's making, that we drop the percentage on the debt service charge. That would help it, would it not?

Mr. NOSEWORTHY: I just wanted Mr. Mansur's opinion as an expert in housing. He is an authority.

The CHAIRMAN: Mr. Cameron?

By Mr. Cameron:

Q. Mr. Mansur, as I recall it the minister in his speech in the House suggested it was hoped to have approximately, I think it was 104,000 new starts this year. Would you agree, Mr. Mansur, that that is a reasonable aim of Central Mortgage and Housing?—A. I think that figure is essentially the minister's. I think he referred to the number of starts in 1953 and then indicated it would probably be desirable to keep on that level or achieve a

higher level. I would hope that if all factors remain favorable and if the changes in bill 102 are as effective as is hoped they will be, that we might have starts at rather a higher level than that which we had in 1953.

Q. Thank you. Now, Mr. Mansur, I notice that in your schedule of monthly payments which you distributed just now, you refer only to \$10,000 and \$12,000 houses. Would I be right in assuming that in your opinion the vast majority of new starts that would be expected in 1954 will all be houses costing not less than \$10,000?—A. In the year 1953, the percentage of houses under \$10,000 was about 25 per cent. The remaining 75 per cent consisted of houses costing \$10,000 and more. I would anticipate that in 1954 those ratios might not change too greatly.

Q. You feel that the vast bulk of the houses will cost \$10,000 or more, approximately three-quarters of the total will cost \$10,000?—A. Yes.

The CHAIRMAN: The majority, anyway.

Mr. CAMERON: Now, Mr. Mansur, that brings me to this question of effective demand which you have spoken of earlier, and I have been endeavouring to figure out from the figures made available by the government just where we can expect to find our 104,000 new customers, and I must insist, as did my colleague Mr. Thatcher, that the only figures we have regarding incomes are those which are set out in this volume of the taxation statistics, unless we are going to accept the idea that there has been widespread income tax evasion.

The CHAIRMAN: Mr. Cameron, one moment please. It is not based on widespread evasion of taxation at all. That was not the reason Mr. Mansur gave, so that if it is to be put on the proper basis—

Mr. CAMERON: All right then, what was the reason for considering these figures are incorrect?

The CHAIRMAN: You quote those figures and he will deal with them. He said there were multiple incomes. It is obvious that there are multiple incomes in many homes.

Mr. CAMERON: But I submit, sir, the multiple incomes are provided for in these income statistics.

The CHAIRMAN: But there may be two people in the same house in receipt of incomes of let us say \$2,200 which would mean a total income of \$4,400.

Mr. CAMERON: I presume, sir, you like most of us here, are unfortunate enough to have to pay income tax. I presume the department takes that into account. The families with multiple incomes will be a minor factor because in large majority they will fall into a lower income bracket than could possibly take advantage of this housing scheme. I would like to know, Mr. Mansur, where you are going to get 104,000 new starts, and I will take the present rate which is set forth in your schedule, taking into consideration what we now know and what your experience has been. On that 5½ per cent interest rate, I find that in a 25-year amortization period the family is required to have an income of nearly \$3,600 a year and according to the taxation figures between 75 and 80 per cent of our population have incomes of less than that.

The CHAIRMAN: Are those 1952 figures?

Mr. CAMERON: Yes. I am anxious to find out about this, because if you look at those figures again you will find in that case they have to come from the higher income brackets and they total some 303,000 people. How many of those people do you imagine will be applying for new houses in the forthcoming year?

The WITNESS: Mr. Cameron, the figures you have quoted are for the year 1952. I would guess that those 1952 income tax figures would have, if anything, greater application to the year 1953 than even to 1954. Now, those

figures indicate that it just would not be possible for 104,000 houses to be sold. But even with those 1952 figures in existence the experience in 1953 was indeed that all the houses that were built were sold, and therefore I question the validity of the figures as they relate to effective demand.

Q. I do not dispute you, but I was in Toronto only a few weeks ago and I saw three houses with the N.H.A. sign upon them for sale, which had been for sale in October when I was in Toronto. Now, I think you may be deluding yourself—

The CHAIRMAN: What area Mr. Cameron, what part of the city?

Mr. CAMERON: That was in the Scarborough area.

Mr. FLEMING: Were they new or old houses?

Mr. CAMERON: New houses. I admit that they were brick monstrosities, to my western mind they should never have been built; they were just monstrosities.

Mr. HELLYER: May I ask a question?

The CHAIRMAN: Yes.

By Mr. Hellyer:

Q. Mr. Mansur, do you think there might be a temporary lull in effective demand in the Toronto area due to the fact that this bill and the new arrangements have been given wide publicity and that hundreds and perhaps thousands of people who intend to purchase houses in the year 1954 are waiting to see just what will be available in a couple of months?—A. I would think that any legislation coming into being is inclined to create a soft spot during the period that it is under discussion.

Q. Do you think it is possible that any of these houses mentioned could be in that category, that the people are looking at them now and might buy two months from now and are waiting to make up their minds?—A. There may be something wrong with the area; there may be something wrong with the houses.

The CHAIRMAN: They are probably relying on the housing promises we made in August. That is the answer. Mr. Quelch.

Mr. QUELCH: I just want to ask one question with regard to the operation of Central Mortgage and Housing Corporation. In the small towns of western Canada—

The CHAIRMAN: Will you speak up, Mr. Quelch? The reporter cannot get it, and it was an important question.

By Mr. Quelch:

Q. I want to ask a question regarding the operation of Central Mortgage and Housing Corporation in the small western towns. In order to find out whether there may be a change in policy as a result of Bill 102, in order to explain what I am referring to I would like to quote one paragraph from a letter written by Mr. E. K. Gibson, senior member of the Manulife Production Club, to Mr. Robert Fair, in regard to the town of Stettler:

Items in newspapers and the Financial Post along with your talk on the radio mention minimum and maximum mortgage periods as being 20 and 25 years now being changed to 25 and 30 years. That sounds good; however with direct loans from C.M.H.C. to home builders in this town of Stettler all the home builders I contacted (5) had the term of the mortgage reduced from the 20 years on their application to as low as 14 and as high as 19 years. They were advised it was graded on account of their income. . .

Again items in papers etc., deal with terms of \$8,000 and up with the down payment specified.

Here Stettler does not enter into this benefit of small down payments; it has no bearing as to down payments to the home builder. All applications were advised that the maximum loan in Stettler was \$7,000.

I could understand that if the town of Stettler was in what you might call a poor farming district, but the town of Stettler is a very prosperous town in a prosperous mixed farming district. I would say that the population—I am not sure—but I would say it is somewhere around 3,000, and it is booming rapidly as a result of the fact that the Stettler area has become a substantial oil field. So I cannot understand why there should be these limitations. The incomes should be fairly regular; there is little danger of the income fluctuating there. Over the past 40 years that has been a prosperous town, and it seems strange that limitation of \$7,000 should be made. He points out in the letter as the result of that:

You know as well as anyone a house cannot be built for less than \$10,000 that means the minimum down payment here on a house contracted for \$10,000 is 43 per cent plus the cost of a lot which runs \$800 to \$1,200.

That makes it very difficult for people to build houses at all, and yet there is a drastic shortage of houses in Stettler. There would be a high effective demand there if they had the money.—A. We have made 24 loans in Stettler, but I would like to remind you that it was not until we started operating under the authority given by parliament that any loans were made in Stettler.

Q. Why have you set the maximum loan at \$7,000?—A. Under the new bill a loan cannot be made if it is less than 70 per cent of our lending value, so that the condition that you mentioned will in large measure be corrected under Bill 102. Whether the lenders will agree to make loans as large as that in Stettler is another matter. I know Stettler quite well; in fact I was in Stettler during the mid-thirties. Maybe I am prejudiced.

Q. It is a nice town.—A. A very nice town of 2,442 people and very different from what it was in the mid-thirties. I believe that our reason for holding loans to \$7,000 was that should such a property come into our hands there would be very little possibility of renting it for \$75 a month, which would be the rent required to justify an investment in real estate resulting from a mortgage of \$7,000. Now, if the house cost \$12,000 in Stettler and a \$10,000 loan was required, then a mortgagee would have to look pretty carefully into whether a house with capital value of \$10,000 plus acquisition costs could produce an income by way of rental sufficient to justify that level of loan. That is the main reason why loans in those smaller communities are being cut.

The CHAIRMAN: Would you mind letting the matter stand over till the later meeting?

We will now adjourn and we will meet again at 3.30 instead of four o'clock.

AFTERNOON SESSION

February 11, 1954.

3:30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. I have an appendix entitled "Home ownership income relation to down payment and interest rates". It will go into the record.

(See Appendix E).

Perhaps Mr. Mansur will take just a minute, as soon as it is passed around, to explain what it means.

Mr. FRASER (*Peterboro*): That's fair enough.

The CHAIRMAN: Then it will mean the same thing to everybody.

Mr. David Mansur, President, Central Mortgage and Housing Corporation, recalled:

The WITNESS: Mr. Chairman, in this graph we have attempted to show the manner in which debt services rise as the amount of down payment decreases. It may also be useful as a graph to indicate the amount of income required on a 23 per cent basis for different amount loans at different interest rates.

The CHAIRMAN: You may deal with it in your questioning, gentlemen.

Mr. FLEMING: It also shows the increase in income that is required with a rise in interest rates.

The CHAIRMAN: I think he said that.

Mr. FLEMING: That is not quite what he said.

The WITNESS: You will notice that we used the two extremes of interest rate mentioned by the minister in the House, and we added a mid rate so that we would have a mid-line.

Mr. FLEMING: There is no more of that 2 per cent stuff.

The CHAIRMAN: Now, Mr. Quelch.

By Mr. Quelch:

Q. Mr. Chairman, before adjournment we were discussing the operations of Central Mortgage with respect to the town of Stettler. I understood Mr. Mansur to say that one of the reasons for the ceiling of \$7,000 in Stettler was he fact that the higher priced houses would have to be rented at a figure around \$75 per month, and that generally, Stettler houses could not be rented at that figure. But it does seem to me that in his reply there is a presumption that the people who built houses in Stettler are going to default, and that after they have defaulted, it would be difficult to rent the place at a figure higher than \$75. I hardly believe that would be the case in a place such as Stettler, because there we have a large number of farmers who are retired and living in Stettler and I think they should be considered as a pretty good risk. Therefore I think that the houses in Stettler should be regarded as houses built to be occupied by the builder rather than to be rented at some future date. Accordingly I do not think we should keep a ceiling on loans merely on account of the fact that these houses could not be rented at \$75 in that town.

Mr. Mansur might perhaps deal with that point, although I suppose under the new bill, with new funds being made available, it will probably be possible to have that ceiling raised as a result of additional loans.

There is one other point I would like to make and that has to do with the question of amortization over a period of 14 to 19 years. Under the old Act, it was for 20 to 25 years; but in Stettler the practice was to amortize over a period of from 14 to 19 years.

Later he stated that it was graded on account of income, and I came to the conclusion that the income of these people was low. But now I understand that the practice of central mortgage is that where incomes are high, they cut the period of amortization down; and that where the incomes are low, they increase the period of amortization. Is that a correct interpretation—A. In connection with your first question, Mr. Quelch, it may be that our policy for direct loans has been too conservative. But I would agree with you that every loan in Stettler may not necessarily go into default. However, I think that anybody in the mortgage business views his security as if it might go into default. And the policy which I mentioned to you arises from our belief that in the smaller communities, marketability is considerably less than in the larger communities and that generally, for like houses, the rental scale is less in the smaller communities than it is in the larger communities.

I think a very good case could be, and indeed has been made by you, in urging that such a conservative policy be no longer followed.

Generally it has been our policy for the last two or three years that in these smaller communities we do not cut the loan to a level below four-fifths of that which it would have been in the nearest metropolitan community.

In the case in Stettler, let us assume that Calgary is the closest metropolitan community. Now, in Calgary on a 1,000 foot house, let us say the loan is \$8,000. Therefore in Stettler or in Olds, or in Didsbury, it is our policy that we will not cut a loan to less than \$6,400.

I do not think it is possible for me to defend that "rule of thumb" absolutely. Recently we have been coming considerably closer to what I think you believe is the proper procedure than we were two or three years ago. I think we will always have trouble in financing houses in a manner that meets the needs of the home owner in areas where we have doubts about the marketability and rental levels. I think, Mr. Quelch, it is largely a matter of compromise but I agree with you that, if anything, our policy today is too conservative.

Now, dealing with your next question, that is the varying scale of amortization used by Central Mortgage in direct loans, because funds from Central Mortgage are regarded as loans of last resort, we have been operating on the principle that these funds, advanced by way of last resort mortgage loans, should be repaid as quickly as the borrower is able to repay the loan. Central Mortgage is not in the mortgage field as a business, but rather as a lender of last resort. Therefore, if in a small community there were say three identical houses with a loan of \$7,000 on each one of them, the amortization period would be set so that the repayments represent a debt service for a man and wife and two children of 18 per cent of his income. Now, let us assume that there are three houses, and one family has say \$5,000 a year, the amortization might work out to sixteen years. Another family has an income of \$4,000 a year and the amortization would work out to eighteen years. A third family has an income of \$3,300 a year and the amortization would work out to twenty-four years. What we have tried to do is to ensure as rapid repayment of these crown funds as is commensurate with the ability of the borrower to make repayment.

Q. If the circumstances of the individual were under change after two or three years and his income were to fall, would it be possible for him to get a new amortization then on a longer period such as he would have been able to get at the time he signed his contracts?—A. Yes. We, like a lot of the approved lenders behave, I hope, as a good lender and we are very anxious to make the mortgage terms meet the capacity of the borrower.

The CHAIRMAN: Mr. Macnaughton is next and Mr. MacEachen will follow.

By Mr. Macnaughton:

Q. I have a few questions which I hope are fair, because I consider the opinion of Mr. Mansur is so valuable.

Mr. Mansur, on second reading of your excellent original statement it seems to me to be the general assumption in that statement that there is currently in existence a demand for houses beyond the financial capacity of institutions presently engaged in the lending field, and one thing I would like to know is on what factual basis you make that assumption.

Now, my other two questions more or less follow along, and I can wait or give them to you now.

The second question is, are we in fact assuming, or is there ground for assuming, it is the initial payment and carrying charges that are the deterrents to wider home ownership?

The third question would be, has Central Mortgage and Housing Corporation given adequate attention in suggesting that inclusion of the banks in the mortgage lending field to the question as to whether this move will be sufficient to encourage a marked increase in the demands for housing.

The fourth question is: is construction, particularly housing, being overplayed as an inflationary measure, and I mean in general by that a form of subsidizing and, that is to say, that certain financial arrangements are being supported by the government in the expectation that these will bring about rejuvenation or expansion of activities in the housing field.

The last question is: referring to page twenty-three of your statement on housing about slum clearance, I wonder if you would make some remark as to whether the city of Montreal or the province of Quebec have been in touch with your department seeking to relieve the slum conditions in Montreal, and if any requests were made by the civic or provincial authorities whether or not you would give any consideration to that request?—A. Mr. Macnaughton asks about the factual basis for insufficient mortgage funds, if that is a good paraphrase. I think the factual basis is that in our day to day operations both at head office and at our branch offices we get continuous indications that more houses would be built if more mortgage funds were flowing. We have not a statistical summary of it, but I feel very definitely that such was the case during the year 1953. In my evidence which I gave in a preliminary statement I attempted to indicate that there was every possibility that the funds would not flow more freely from our present group of lenders, but indeed might be rather lessened in amount.

Mr. Macnaughton's second question dealt with whether debt service and down payment were the only two deterrents to home ownership—to a perhaps greater home ownership. I think there is a third one and that is attitude towards home ownership. I think the debt service and the down payments are the two most important factors which deter those eager for home ownership, but I do not think that the whole level of new home ownership in Canada is dependent upon the ability or inability of the prospective home owner to met the debt service and down payment requirements.

Your third question dealt with whether Bill 102 would create an increase in demand. I think that to the degree Bill 102 makes terms easier either in the debt service or in the down payment sector, then Bill 102 tends to stimulate effective demand by making a wider band of prospective home owners able to enter the home ownership field.

Your fourth question dealt with as to whether housing is being overplayed and is an inflationary measure. At this point I look to the chairman because I enter into the field of doubtful capability.

The CHAIRMAN: We will have that answered later.

The WITNESS: The fifth question dealt with the rejuvenation of the house building industry as a result of Bill 102. I do not think I can quite agree with the word "rejuvenation". It is at a very high level at the moment. I think perhaps it would be fair to say, however, that one of the purposes of Bill 102 was to maintain the present high level, and perhaps permit expansion to even higher levels. And your final question Mr. Macnaughton dealt with section 35 in the city of Montreal. Earlier in my evidence I mentioned that nine of the ten provinces had legislation complementary to section 35 of the National Housing Act whereby projects could be entered into either in the land assembly field or in the rental housing field. The province of Quebec has such supplementary legislation. As yet, we have had no request from the province of Quebec to join with them either in a land assembly or in a rental project in that province. The activity to which I am sure you refer in Montreal has been generated by a civic committee who are genuinely and sincerely interested in this problem. We have had no official communication from either the city of Montreal or from the province of Quebec, but the civic committee, interested in this matter, did ask us whether we would send some experts in the field, to Montreal, to talk to them in order to explain how that section of the Act worked as well as to discuss other problems encountered by housing authorities in other parts of the country. This we did, and I think we have had two meetings with them, at each meeting being very careful to make it clear to them, however, that we could do nothing until the proposal was initiated by the province of Quebec. I think, Mr. Chairman, that answers Mr. Macnaughton's questions.

Mr. MACNAUGHTON: Thank you very much.

Mr. GAGNON: Who are the members of the committee in Montreal?

The WITNESS: There is a Mrs. Killbride, whom I think is the chairman. I was not one of the people from Central Mortgage who went to see them, and I cannot remember the names. However, it is my impression that it is a very representative committee, very serious about the subject, because they are not talking generalities. They have a site in mind for development. That is, the clearance of existing buildings and the redevelopment of that site by the erection of new rental housing.

By Mr. Macnaughton:

Q. Nothing like the Regent Park housing development that has taken place?—A. No, it has not reached that point, although they have preliminary ideas in regard to this block of property which is very much the same size and its location in the city of Montreal very similar to the location of Regent Park in Toronto.

Q. I presume that if you did get a worthwhile request you would be only too willing to accept, but the request has to come first from the civic authorities and/or the provincial authorities?—A. Mr. Macnaughton, as far as we are concerned it must originate from the province, because it is the province with whom we enter into an agreement. We must be careful, however, in a matter which is essentially a provincial matter, that we do not appear to promote projects which may or may not meet with the wishes of the municipality and the province.

The CHAIRMAN: Mr. MacEachen?

By Mr. MacEachen:

Mr. Chairman, I would like to direct Mr. Mansur's attention to the provisions for loans to limited dividend corporations. I note from your statement that limited dividend corporations include charitable organizations, service clubs, and so on, and therefore I conclude that this type of sponsor is primarily

interested in a public service and does not enter this field as a profit-making activity. Now, one of the traditional types of limited dividend corporations has been cooperative associations, including cooperative housing associations, and because there has been considerable experience accumulated in Nova Scotia under the terms of the Nova Scotia Housing Commission Act by which owner members of cooperative associations of low income can receive loans from the Nova Scotia Housing Commission in order to build homes, and because this experience I think has been successful, particularly in the lower income group, I want to ask you what considerations have made it undesirable in your judgment to include cooperative housing associations under the terms of loans to limited dividend corporations, assuming of course that there would be some changes and that cooperative associations would be able to own these homes rather than rent them?—A. Over the last five years there has been a running battle, if you like it, between various groups interested in cooperative housing projects, and Central Mortgage as to the propriety of qualifying a cooperative, after it has converted itself into a limited dividend corporation, as a limited dividend corporation which meets the requirements of section 9 of the National Housing Act. Section 9 of the National Housing Act has, as its very backbone, the requirements that the project be available to families of low income on a rental basis. The cooperative whose members, by ownership of share capital, own the house and occupy them as tenants have a beneficial interest in those houses. We referred this matter to the government who agree with us that the cooperators with a beneficial interest in the ownership of the houses do not qualify as families of low income to whom units owned by limited dividend companies may be rented. I can make one further observation in saying that I do not think that the Housing Act in its present form contemplates different rates of interest to different types of home owners. If the present $3\frac{3}{4}$ per cent interest rate was made available to a cooperator who had virtual home ownership by being a member of the cooperative, it might seem unreasonable to home owners proceeding in the ordinary way at $5\frac{1}{4}$ per cent. It seems to me, Mr. MacEachen those are the two reasons why the provisions of the limited dividend section of the National Housing Act have not been made available to cooperatives.

Q. Now, would you agree with me that this prospect of beneficial interest is something indeed desirable and contributes to the stability of the situation?—A. Quite, I agree completely.

Q. But under the terms of this Act it is actually the terms of the Act you are using as a basis for your reply to this question?—A. Oh quite, and I think it would be very nice for home owners if indeed not only the cooperators but all home owners had every opportunity to build houses at as low interest rates as possible.

Q. I have one more question and it is this: has the Central Mortgage and Housing Corporation made any advances to the Nova Scotia Housing Commission in their activity in this field?—A. Yes. We have an agreement with the Nova Scotia government under section 35 of the National Housing Act under which the Nova Scotia government has appointed a Nova Scotia Housing Commission as their agent to deal with us. Under the terms of section 35, it is possible for us to join with the Nova Scotia Housing Commission and provide three-quarters of the funds required for the operations of the Nova Scotia Housing Commission. As you are aware their operation has been highly successful. In my opinion, they represent cooperative development at its very best and I think it is a particularly happy arrangement that allows us, under section 35, to provide financial support and thereby extend the activities of the Nova Scotia Housing Commission.

Q. And therefore, in so far as Nova Scotia is concerned, in a sense the whole problem of a limited dividend corporation is solved satisfactorily?—
A. Not at 3- $\frac{3}{4}$ per cent. The interest rate is somewhat higher.

The CHAIRMAN: Mr. Balcom.

By Mr. Balcom:

Q. I would like to ask if that answer given to Mr. MacEachen on the co-operatives would apply to a co-operative club like the Rotary club.—A. No, Mr. Balcom, a Rotary club would be a non-profit-making organization which would not be interested in putting Rotarians in as tenants and they would qualify in every way. In fact six or eight of the limited dividend companies to whom we have already made loans are service clubs. An outstanding one is the Kiwanis Club of Victoria. They are doing about 160 units for elderly people. We have made, I think, six or eight loans to service clubs.

Mr. BALCOM: Could I say this may have been asked before—

The CHAIRMAN: Go ahead.

By Mr. Balcom:

Q. Is there a minimum in the number of units and/or loan amounts in the limited dividend field acceptable by C.M.H.C.?—A. I do not think we have ever met that problem. I think we would take a pretty dim view of an individual who formed a limited dividend company for the purpose of building one unit to rent it to a friend. I do not think that such an individual would be successful in convincing the provincial government to give it a charter as a limited dividend company. Mr. Balcom, I think our protection is the issue of the charter to the limited dividend company by the provincial government.

The CHAIRMAN: Now, is there any member who has not had an opportunity to question the witness who would like an opportunity now?

Mr. HELLYER: I would like to ask a question on the limited dividend section.

The CHAIRMAN: Is there any other member?

Mr. HEES: I want to ask some more questions.

The CHAIRMAN: I know that, and I will call you in time. Is there anyone who has not yet had an opportunity to question the witness on limited dividends?

Mr. HELLYER: I see that the proposed maximum return on the investor's equity is to be five per cent. Since this section was originally put in the bill the interest rates in practically all the sections have increased. In fact the interest rates under this section have increased substantially, and I wonder why it discriminates against the return on the equity in this section as compared with the rest of the Act.

The WITNESS: Mr. Hellyer, I think a good case could have been made to raise that maximum return to the limited dividend companies to, say, six per cent, in view of the change in the general interest rate structure. It was considered—we discussed, indirectly, with a number of the limited dividend companies the advantages of so doing. There did not seem to be a great deal of urge for it. We reported our findings to the government and when the bill came down the five per cent rate remained.

By Mr. Benidickson:

Q. Mr. Chairman, some reference was made to accommodating elderly people under the sponsorship of the Kiwanis Club in Victoria. I would assume

that that was under similar arrangements as provided shelter for elderly people at Burlington, which I think was the pilot scheme in Ontario.—A. That is correct, Mr. Benidickson.

Q. How many schemes of that kind have there been in Ontario? I think Owen Sound was the second one.—A. Mr. Chairman, may I check my list?

The CHAIRMAN: By all means.

The WITNESS: Mr. Benidickson, whereas this may not be a full list, I see the large development sponsored by the township of York in the Toronto area, which I think was 128 units, and I see one in Brantford; the Lowren development in Ottawa contemplates some elderly persons' units in its next development. I think these are the other ones in Ontario, Mr. Benidickson.

By Mr. Benidickson:

Q. Could you give us some idea of the rents contemplated under, shall we say, the most recent of the Ontario schemes?—A. Using a married couple's unit as a basis, the general range of rents admitted under section nine for elderly people would be \$30 to \$35.

Q. What is the maximum term of loan?—A. In the case of non-masonry construction, 40 years, and in the case of masonry construction, 50 years.

Q. The rate of interest?—A. 3- $\frac{3}{4}$ per cent.

Q. Under this bill? It is by order in council?—A. Under the bill the rate will be determined by the Governor in Council.

The CHAIRMAN: Mr. Hees, I called you but Mr. Cannon was due to speak this morning, so you might let him take his turn.

Mr. CANNON: I noticed on page 14 of your statement that you say:

Under the new arrangements, the one-quarter share of participation in joint loans by Central Mortgage will no longer be available. Therefore, with like amount of mortgage investment, lenders under the National

Housing Act will finance fewer units.

I was wondering what was the reason for discontinuing that participation by Central Mortgage. After all, what we are trying to do is to make more money available, and while you make more money available from other sources you are cutting off that source.

The WITNESS: Mr. Cannon, I think that the government probably feels that if the band of lenders can be widened so that the flow of mortgage funds will greatly increase, then there was much to be said for having all mortgage funds under the National Housing Act flow from private lenders rather than having a continuous flow of the quarter share coming from government funds.

The CHAIRMAN: Mr. Hees.

By Mr. Hees:

Q. I have five questions, Mr. Chairman. I will make them very brief. Will Mr. Mansur give me a brief answer to the Avro question?—A. Towards the end of last year the Avro group of employees, wishing to develop the Streetsville or Vista project, came in to our office in Toronto, and we considered their proposal and indicated to them that we were prepared to make loans under the National Housing Act, for sale to employees of A. V. Roe, who qualified for defence workers' loans.

They brought in a plan of a subdivision and a plan of one house. I will not go into the deficiencies under our standards in that one house, but I can assure you that there were 20 of them. In addition, the one house which they asked us to look at, exceeded the Regulation limit, by some 90 feet. However, we suggested to them—and this was before they got very angry

with us—that they might like to revise the plan so that they would meet the standards pertaining to defence workers' loans. We said we would make the loans on a number of conditions. The conditions are:

1. That evidence be supplied that the accumulated down payments are held in trust by independent trustees so that the employees are protected and that the money will not be used either as collateral for a bank loan or working capital. It is presumed that this condition can only properly be applied against that section of the project to be built by defence workers loans, although we do not see how we can divide the development company's responsibility in a project of the type proposed.

2. That we are supplied with a copy of a firm contract between the development company and the construction company (J. R. Page) for the construction of all houses on which loans are approved.

3. That we are satisfied with the financial statement of the construction company.

4. That the subdivision plan has been approved by the proper authorities and is satisfactory to us.

5. That the proposed house plans meet the requirements of our building standards both as to construction and those aspects of design affecting privacy, light, air, and space.

6. That Vista Development Company supply satisfactory evidence that it has secured a bank loan in accordance with its stated intention to do so and that this bank loan does not impair the trusteed funds held by the company.

7. In the case of 125 units to be built by direct loan to individuals the credit worthiness of each individual will be measured carefully by our usual procedures. We feel that it would be wise to satisfy ourselves that each applicant has sufficient equity to cover the difference between the loan and the maximum sale price established by us rather than a proposed cost price by the builder which may be lower.

8. It is our understanding that the Vista Development Company must build a 12 or 14-room school. This will undoubtedly affect the financial position of the company and, in addition to the above requirements, we wish to know what definite arrangements will be made by the company to build the school.

I understand that the last seven requirements are still outstanding.

We believe it to be prudent, with a group of defence workers, each one of whom has made a down payment which is now "trusteed" that we should take every precaution to see that this project does not run into heavy weather. I greatly prefer the criticism that we are getting at the present time to the criticism that we would get were we, let us say, less severe in our requirements.

Q. Thank you very much. I understand that Central Mortgage carries out inspections for the Defence Construction Department?—A. That is right.

Q. And I think you said some time ago that you were going to cease doing those inspections.

Mr. MACDONNELL: Louder, please.

By Mr. Hees:

Q. Thank you. I think you stated some time ago that you were going to cease doing those inspections. Am I right or wrong in that belief?—A. Yes. The arrangement for Central Mortgage to act as an agent for Defence Construction was terminated at February 1, 1954 with a gradual turnover to be

completed by May 1, 1954. But, Mr. Hees, we will continue to act for the Department of National Defence in the matter of housing and schools.

Q. Did your inspectors carry out the inspection of the garage, I mean the navy garage at Halifax?—A. Yes.

Q. But you have not had a report from them as to what the trouble was down there, or as to why the collapse took place?—A. No. There is an investigation by the consulting engineer in charge together with another engineer who has been brought in to assist; but the report has not yet been received as to whether the trouble was due to material, design, or to faulty workmanship which was not caught by inspection.

Q. My third question is this: You have for some time participated in the mining, lumbering, and logging industries, or with companies in those industries, to build rental housing for employees. What has been your experience? Has it been good, or not so good?—A. Save for one case our experience has been excellent. The one case was a logging company on the Pacific coast which, through matters not in any way relating to houses, got into financial trouble. Generally the arrangement has been excellent not only with these loans to primary producers but also with respect to loans under other sections of the Act, to employers in the primary producer field supplying housing for their employees. I am thinking now of Marathon, Terrace, Devon, and Redwater. The experience has been very good.

Q. I take it from that experience that you would consider that it would be a good thing for companies in other industries to carry out the same kind of activity with respect to housing on behalf of their own employees?

The WITNESS: Well, as one who is very interested in housing, from our point of view, I think it would be wonderful. But whether it is good business for them, maybe they are the best judges.

By Mr. Hees:

Q. But as far as you are concerned do you think it would be an excellent thing to have this provision extended to companies in all types of industry, particularly from the point of view of building rental housing for employees?—A. I think that this provision for primary producers is essentially for movable housing.

Q. Well, let us say something like it?—A. I think an extension to a company interested in housing in an orderly fashion, from our point of view, would be wonderful.

Q. I should think it would be, from your point of view too.

The CHAIRMAN: Are both of you gentleman speaking about company towns?

Mr. HEES: No, no.

The WITNESS: Not necessarily, Mr. Chairman.

Mr. HEES: Not necessarily.

The CHAIRMAN: Let us make sure.

Mr. HEES: We are just talking about industry in general.

The CHAIRMAN: I do not want either of you to discuss company towns without my knowing about it.

Mr. HUNTER: "George H. Hees and Company"!

By Mr. Hees:

Q. I appreciate your interest. What decrease for mortgages are you expecting this year from the life insurance companies? How much less money do you expect will come forward this year from the life insurance companies for housing? Can you tell us roughly?—A. I am afraid I cannot give you an

answer. In my evidence I tried to indicate that I thought, if anything, the trend would be downwards. The ratio of mortgage assets to total assets rose again last year by about 2 per cent.

If the investment intention of these life companies is that the ratio of mortgages to total assets shall rise by a like amount again this year, then perhaps there would not be much change in total investment. But, Mr. Chairman I understand that, a little later, Mr. Bryden, the President of the Dominion Mortgage and Investments Association will be here and he will surely give you a most expert opinion.

Q. Was it \$80 million which will not be coming from that source this year?—A. About \$60 million, Mr. Hees.

Mr. HELLYER: Isn't that on joint loans?

The WITNESS: Yes—our share.

By Mr. Hees:

Q. Have you got an estimate of the amount of money which you expect will come forward from the chartered banks this year to take up the slack?—A. That also is a difficult question for me to answer. But in the over-all I would hope that the gross amount of funds available under the National Housing Act would be as great as last year. Now, in saying that I could through with the arithmetic, but I am sure you do not want me to do so.

Q. I have talked with two senior officials from two of our three larger banks very recently. They tell me that at the present time the proportion of their investment portfolio which they are allowed to invest in non-government securities is almost, if not completely, taken up with mortgages and industrial investments. They did not know at that time where these additional funds were coming from, or if they were to rob industry and commerce of the funds which are presently available.

The CHAIRMAN: I think that is a very unfair question and conclusion. You know very well, Mr. Hees, that the President of the Bankers Association will be before this committee next week. That is the proper kind of question to ask him. Then you will get a proper answer. The assumptions and the statement which you have made are incorrect as far as I know.

Mr. HEES: Well, from my conversations with these two officials they are very correct, and I think it is a fair question to ask the head of Central Mortgage and Housing because this whole act is based on getting additional funds and I want to know where he thinks these funds are coming from?

The CHAIRMAN: The bankers will answer that when they are here.

By Mr. Hees:

Q. My second question is why do Central Mortgage and Housing insist on carrying out all appraisals and inspections for the mortgages that are taken on by the banks? In the past, as you know, the other lending institutions carried out their own appraisals and inspections, and I can see no reason why the banks, especially as their loans are being guaranteed, should not do their own appraisals and inspections instead of Central Mortgage and Housing.—A. The first reason is that under Bill 102 the risk for the most part is Central Mortgage's for and on behalf of the government and I think it is quite reasonable that an insurer who is taking 97 to 98 per cent of the risk should have a fair amount to say as to the amount of the loan which is to be made. That is true in other fields of insurance, and I think it would be highly improper if we proceeded to underwrite, to the extent of 98 per cent, loans based on the valuation of lending institutions whose risk in the loan was relatively small. That is item number one. Number two is this: one of the objects of this

exercise is to make this thing work and make it work fast because the spring is not going to wait for the training of a whole bunch of appraisers. Now, I mentioned earlier that the day might come when we might revert to the old practice of two appraisals. We have consulted with the banks who have been very frank and said it would be very difficult for them to put together a real estate organization sufficient to look after 3,900 branch banks in time to do very much in the year 1954. We have an organization; we have to do the appraisal anyway; and it seems reasonable that we should do the appraisal. I may say that, although people have taken great comfort out of the fact that the present act requires an appraisal by the lending institution and an appraisal by ourselves, the appraisals by the lending institutions generally have been very close to ours. I think I am correct in saying that the level of appraisals has been determined by Central Mortgage and not by the lending institutions. In the year 1953 the percentage of loans where our appraisal exceeded that of the lending institutions was 15 per cent as against 16 per cent last year and the average amount of the excess was \$185. In the reverse, there were 11 per cent of the cases where our appraisal was less than that of the lending institution by an average amount of \$175. So it seems to me good sense dictates that we get this operation under way and that Central Mortgage do the appraisals.

Q. I certainly see you could start doing it, but have the banks any plans for the training of staff and for taking over?—A. I would think that the high level of the service provided by Central Mortgage would convince the banks very shortly that there was no object in duplicating such excellent services as they were receiving from Central Mortgage.

Q. What is the cost for inspection? What does it cost to do a full inspection?—A. The full operation, Mr. Hees?

Q. Yes. Per house?—A. I think about \$35 which, of course, is broken down into plans' examination, the actual appraisal, on site inspections, the progress estimate for advances, and other matters that relate to the processing of the loan.

Q. How many houses would you expect would be handled through Central Mortgage and Housing this year; or how many did you handle last year?—A. There were 38,000 units under the National Housing Act last year. I would hope maybe for a few more. Mind you, we are working on a short year because the joint loan provisions of the National Housing Act are, at the moment, as dead as mutton.

The CHAIRMAN: Mr. Stewart, have you a question?

Mr. STEWART: One question following Mr. Hees. Can Mr. Mansur tell us when the banks were first informed or consulted about this pending change in legislation?

The WITNESS: Well, Mr. Stewart, I cannot answer that question. It would be a matter which the government would discuss with the banks and as your chairman has indicated on several occasions I have not been very closely associated with the banks during latter years.

Mr. STEWART: It was not the corporation which made the first advance?

The WITNESS: No.

By Mr. Fleming:

Q. Mr. Mansur, I would like to begin with the matter of serviced land. I think it is fair to say that as your evidence has developed it is quite clear that the principle problem you are faced with is the impending shortage of mortgage funds. There is also this problem of serviced land?—A. Yes.

Q. And I think it is a fair conclusion from what you have said that that is a very serious matter in our housing problem in Canada today, particularly where the housing shortage, as you describe it, is most acute. What do you say is the possibility in relation to this problem of serviced land, particularly in the light of soaring costs of municipal services?—A. Mr. Fleming, when we came out of the war and during the early years of my association with the National Housing Act, municipalities were to a large degree “living off their fat” and then we came into the period, say 1949—

Mr. MACDONNELL: In what sense? Would you explain that?

The WITNESS: A great many municipalities had surplus pumping capacity, surplus sewage disposal and surplus schools, and during the first three post-war years the problem was not too serious. For instance, I remember when the 1947, 1948 and 1949 programs of veteran's rental housing were under way the municipalities had very little trouble in supplying us with some 18,000 lots to implement those programs.

Then, with the using up of the backlog this situation became very acute and by 1951 the financing requirements of the municipality to look after water, sewers, roads, sidewalks and schools, created a great deal of difficulty and concern. You might recall that in several of the annual reports of Central Mortgage we spoke of this situation as causing us great concern. The municipalities had to find some way around it. The way they found around it was to pass on some of these costs to the builder and through him to the home owner. As a result, today the municipalities are still financing a large percentage, maybe on the average 60 per cent, of these improvements, but the remainder of the financing has been passed on to the individual. In that way the municipalities have secured a certain amount of relief from the very heavy pressures. Now, that is about the situation at the moment. As to the future, I still have concern. In our operations under section 35, municipal services of all kinds are, save only for schools, being financed by the province and the federal government. This has provided some measure of relief, but it is not enough. I share your view, Mr. Fleming, that far from being “out of the woods” in respect to serviced land, we are right in the middle of the woods and it is not at all clear in my mind how the municipalities under present circumstances can continue to service the ever receding fringe areas.

Q. Well, I think we are probably in agreement, Mr. Mansur. The two big factors in the housing need at the present time, I think it is fair to say in reviewing your evidence, are first of all the pending shortage of mortgage funds and the problem of the lack of serviced lands. The bill is designed principally to deal with the former factor, but makes no change in the provisions of the Act in relation to the problem of the provisions of serviced land?—A. No, Mr. Fleming, because I believe under Section 35 if a province really wants to go to the assistance of its municipalities in this matter, there is very little improvement that can be found to section 35. As far as the federal government is concerned, I have yet to see the first case of an application from a province for land assembly of any kind that the federal government did not entertain favourably.

Q. You are speaking of section 35 as amended two years ago? You are speaking of land assembly as developed from the subsidy scheme? I want to clear up the point. We have the two principal factors now. The bill is designed to bring about something of a new approach to the problem of the shortage of mortgage funds, and provisions in regard to serviced land remain as they are. In regard to the problem of mortgage funds, have you found any indications of foreign capital coming into the country for land investment in recent years?

The CHAIRMAN: You mean private capital?

Mr. FLEMING: Yes.

The WITNESS: In recent years, no; since the announcement of bill 102, quite a lot of interest.

By Mr. Fleming:

Q. What countries?—A. The United States, the United Kingdom and Switzerland.

Q. Are you in a position to indicate how extensive the sources might be? These, of course, would be enquiries from private capital sources? My question was as to whether Mr. Mansur was in a position to indicate, with reference to these private sources of foreign capital, what the amounts might be expected to be?—A. I think it is very difficult to answer that question, Mr. Fleming. One or two agents, or perhaps entrepreneurs, have indicated to us rather staggering figures and after one puts the usual discount on a figure supplied by an entrepreneur, it still leaves quite a substantial amount, and I would hope that the interest would be substantial. I would be surprised if it amounted to \$50 million a year, and by that I am talking of non-resident capital of people not presently doing business in Canada.

Q. If that capital should become interested, I take it it would have to flow into the mortgage channel through some of the existing lending institutions as contemplated by the bill? There would be no foreign lending institutions as such approved under the Act?—A. That is correct, Mr. Fleming. It will be a domestic approved lender. Personally I am under some embarrassment because I have been asked on two or three occasions recently which approved lender I would recommend.

Q. Why is it these enquiries are suddenly coming now? Is there anything to indicate that that type of finance would be interested under the present scheme? By that I mean, the joint loan scheme?—A. Mr. Fleming, I think that the nature of the instrument appeals to the non-resident investor. I think they like the features of transferability and liquidity.

Q. You are speaking now of the insurance features?—A. I am speaking of the transferability which involves liquidity and also the nature of the guarantee.

Q. Now, the next question is about the construction of rental housing. Practically all our discussion has centred around the construction of housing for owner occupancy, and I suppose it is natural, in view of the provisions of the bill, that attention should be so concentrated because largely the principal changes in the bill are in relation to the owner occupancy. I think you will agree, or will you, that there is a considerable shortage of rental housing in the overall housing shortage? Would you care to make any comment as to the extent of the shortage of rental housing as compared with the type we have been principally discussing?—A. I think, Mr. Fleming, that the very sharp increase in home ownership in Canada, of which everyone seems so proud, has as one of its components a fair amount of "forced home ownership," of which we should not be so proud.

The amount of rental housing, of course, varies tremendously, depending upon whether one is talking about French-speaking Canada or English-speaking Canada. I do not believe that in French-speaking Canada any very great deficiency exists for two reasons...

Q. In rental housing?—A. In the rental housing field as opposed to the home ownership field, for two reasons: the first is that great emphasis is placed by the builders on rental housing in French-speaking Canada, and a second reason is there has been quite a spectacular change in French-speaking Canada from the rental field to the home ownership field. I have some figures

here which I would be glad to give you later, if you like. So, if we are talking about an acute shortage rental housing, I think probably we should be thinking in terms of English-speaking Canada.

Now, there is a very strong feeling on the part of English-speaking Canadian housewives that the place their children should be brought up is in a single, self-contained, cottage type dwelling. As a result, that is the big market. The man of the landlord class realizes that and therefore he feels his operations should be directed towards the largest class of customers he is likely to get, and that is family groups with small children. The result is that in English-speaking Canada the rental housing is a minor part of the whole.

One other major difference in English-speaking Canada, which I think has an influence, is that there is not the landlord class in English-speaking Canada that there is in French-speaking Canada. The entrepreneurs in that field are not interested as they are in the province of Quebec. Further, in English-speaking Canada we do not have that big sector of the most efficient rental housing of all, the duplex and the triplex, where the owner lives in the bottom unit and is a resident landlord in respect to the one or two units above him. This is the ultimate in efficiency of managing rental property. This does not exist in the other parts of the country. I think that every effort should be devoted, as we are trying to, to encourage entrepreneurs in the residential field to get into activities like row housing—a form of rental housing which would be satisfactory to the English-speaking Canadian housewife and yet be economical for management by the landlord. Now, I do not think I have answered your question, Mr. Fleming.

Q. Probably we can come to one or two specific factors in the situation. Is it not a fact that you are finding in English-speaking Canada virtually no single family residence being constructed for the purpose of rent; there is practically none of that going on now?—A. I think there were 822 units—virtually none.

Q. And broadly speaking the type of construction for rental purposes that is going on today in the larger metropolitan areas anyway is the apartment type that is being built with five rooms to rent at not less than \$150 a month.—A. The rental structure today is somewhere between \$20 to \$25 a room, I think.

Q. Now, you have given us some figures on the direct lending operations of Central Mortgage. Would you care to make a comment in general as to your experience with it, as to how satisfactory it has been?—A. Bearing in mind that we are not in business as a lending institution, I think it has been quite satisfactory. There is a high level of complaint in certain quarters, perhaps because of deficiencies in our operations, but more likely, I believe, because of our residual position in the mortgage lending field. As a lender of last resort, we see probably a lot more of the non-credit-worthy applications than would a lending institution. When we say, "No, we won't make that loan", perhaps it is not accepted quite as readily as a "No" would be accepted from a lending institution. In the new business field, I think that we are getting on satisfactorily. We have had no substantial defaults.

Q. May I interrupt? Is your experience with defaults approximately the same as that of the lending institutions under the joint legislation?—A. It is better.

The CHAIRMAN: That is, you have less incidence of defaults?

The WITNESS: We have a lower incidence of default on the residual business than the lending institutions have on the primary joint loan business.

Mr. MACDONNELL: Is that because they are too tender-hearted?

The WITNESS: I am afraid, Mr. Macdonnell, you will tempt me to draw the logical conclusion from my remarks. I will refrain from doing so.

By Mr. Fleming:

Q. How do your administrative costs compare with those under those loans? Are yours higher by reason of dealing with the smaller communities?—A. In the making of the loan, yes, Mr. Fleming.

Q. What about the ordinary servicing afterward?—A. I do not think there is a great deal of difference.

Q. Mr. Mansur, one question about limited dividend housing corporations. What is now the position with reference to participation of municipal governments in such corporations?—A. In many municipalities there is a very lively and helpful interest by the municipality itself. A number of these municipalities, including Ottawa, are prepared to find the funds for the equity. The Federal government has taken the position that it does not care to have Central Mortgage make a loan to a municipally controlled limited dividend company.

Q. That has been the position right from the start?—A. But for the last four years, Mr. Fleming, that situation has been reconciled by the municipality owning the stock representing their equity in the limited dividend company. In the bylaws of the company, provision is made that ownership of the stock by the municipality shall not be voted to create a majority of municipally appointed directors. The net effect is that, although the municipality may be one hundred per cent owner of the stock of the limited dividend company, at no time does that municipality control the board of directors. This is true in Burlington; it is true in Ottawa; it is true in Owen Sound, and everywhere else where we have made a loan to a limited dividend company—

Q. Who makes the appointment of the board of directors in those cases, at least the majority?—A. Generally, Mr. Fleming, the remaining seats on the board of directors are ex officio members of the Canadian Legion, president of Rotary, president of Kiwanis. That is the general pattern.

Q. Appointed by whom?—A. In the bylaws of the company.

The CHAIRMAN: They would be appointed by the city council.

Q. Appointed by the municipality. The point is that, even though the federal government will now permit the municipal government to own the full ten per cent equity in the limited dividend housing corporation they are satisfied as long as the majority of the board of directors are not directly representative of all— —A. That is correct.

Q. Can you put on the record at a convenient place a list of all the places where municipal governments have shared in these limited dividend housing corporations?—A. Yes, I will do that, Mr. Fleming.

The CHAIRMAN: Will you take a break now, Mr. Fleming?

Mr. FLEMING: There is just one point, and I will conclude this group. There is one question on page 23 of your previous statement under the heading "Housing Redevelopment and Slum Clearance", about half-way down the page. You say: "While Regent Park has been the only project undertaken, recent inquiries indicate some early activity under the provisions of this section." Can you enlarge on the reference to "some early activity"? Is that a fair question?

The WITNESS: I have no objection, Mr. Fleming, to answering it. However, I was wondering if it might cause some embarrassment. Saint John, New Brunswick, is a case in point. I don't think I cause any embarrassment by mentioning Moncton. There seems to be activity and interest in Halifax. There is at least a group in Montreal which is very interested. That would be four of them. Whether or not they will come to anything, I do not know.

The CHAIRMAN: Leave it at that. Gentlemen, I have on my list Mr. Johnston, Mr. Macdonnell, Mr. Fraser, Mr. Thatcher and Mr. Hellyer, and I am going to hold all of you to five minutes. I am really going to enforce the five minutes limit.

By Mr. Johnston:

Q. That is quite agreeable to me, because some of my questions have already been answered. But there is just one left and it is this: What opportunity will the small investor have to participate in the insured loans? Suppose a private individual wanted to invest some of his money under this plan, whereby he gets an insured loan. What is the path he should follow? Is there any objection, or what would be called an obstacle in his way?—A. There is none whatsoever, Mr. Johnston. He might, for example, go to a trust company or a bank and say: “I have \$10,000; can you sell me an insured loan?” The bank might say: “Yes. We are very glad to sell you an insured loan, and we will administer it as the approved lender.” As you know, there is the requirement that the approved lender must manage the insured mortgage.

The bank or trust company might say to him: “Well now, we will operate this for you for a half of 1 per cent per annum.”

Q. In fact, Mr. Mansur, they would discount it to him at that rate?—A. It would not be a discount; it would be a service charge of one-half of 1 per cent, on the reducing principal. I mention this because the arrangements between these approved lenders and the subsidiary investors will probably be on such a basis. It is not my suggestion.

Q. Do you anticipate there will be much of that type of business done?—A. I think there will be some of it, yes. But I think it is hard to estimate the volume. There also has been interest shown by some of the trust companies as to the possibility of doing exactly this, Mr. Johnston, selling an insured mortgage with the retention of the administration, instead of selling a debenture of the company and then using the proceeds of that debenture as general funds of the company for mortgage investment.

The CHAIRMAN: Now, Mr. Macdonnell.

By Mr. Macdonnell:

Q. I want to pursue the question of rentals and I want to begin by saying that I have always felt little pride in defending home ownership. But I began to wonder if I had not gone too far and I noticed your remark when you said that perhaps such a tendency might have gone too far in the English speaking provinces. I was surprised at the bottom figure you gave when asked how much of an increase in effective demand would come from the proposed change in the legislation. You said 5,000. Now, what do you think will be the demand for rental owners. Perhaps I should say rental occupancy—A. There is quite a range of rentals in which the answer would be entirely different.

Q. I would like to know whether, if by your decision, you could pass legislation which would give you a larger number of renters or home owners, which you would want at the moment, or which do you think is most needed?—A. I would answer you by saying that with my philosophy I favour rental, but I think the majority of my associates favour home ownership.

Q. Looking at page 4 of your original statement, it would seem to me that the inducement held out to those who are going to produce rental projects is very meagre. Compare the 2 per cent with the inducement held out to those who are putting up structures for home ownership. Why is that? You said you inclined to rental occupancy yourself. It would seem to me, if I understand this bill correctly, on the basis of these current estimates, that we are going in the wrong direction, and that it is going to promote home ownership. It is true that in theory I like it, but I do feel that a lot of people may be nailing themselves down to an investment which they may rue.—A. I wonder if I could answer you this way: In English-speaking Canada I do not think that the limitation upon supplying new rental housing is because of a deficiency in

the financing terms. I think that in English-speaking Canada the major deficiency in the supply of new rental housing lies in the lack of landlord owners, to act as entrepreneurs of such rental housing.

Q. Well, surely that comes back to the inducement offered; and if I am correct in my view, this 2 per cent, when compared to the other guarantee, gives to the investment for home ownership an inducement which seems to be very much higher.—A. In the province of Quebec there has been no problem, under the National Housing Act, to generate a high volume of rental housing.

Q. Yes, but the whole background there differs, as you have told us.—A. That is right.

Q. You have made it clear to us that in the English-speaking provinces it is very different, and that the whole tendency there is in the other direction. I agree very much with what you say, that what we want is more landlords, yet it does not seem to me that we are doing anything to get them.—A. I believe we could get more rental housing in English-speaking Canada by an active promotion of rental housing under the present terms of the Act than by changing the terms of the Act. The example I mentioned in the province of Quebec, I hope, proves my point, that where an investor is willing, the Act is sufficient to encourage rental housing.

Now the trouble is that while in English-speaking Canada we have some of them, we just have not got enough who are interested in owning rental housing.

Mr. FRASER (*Peterborough*): Is that because of rent control?

The WITNESS: No, I do not think it is rent control, except that rent control had a great deal to do with increasing our level of home ownership to its proportion of the whole.

By Mr. Macdonnell:

Q. You do not seem to meet my point with respect to the figures, since in the English-speaking provinces we have to induce people to go into the business, because it is not so familiar to them.—A. The reference to the 2 per cent is probably a little misleading. The guarantees are sufficient to look after debt service, operating expenses, and a 2 per cent return on the investment of the landlord. But when we establish the allowed rentals, there is about a 14 per cent return to the landlord of the rental insurance project.

It is only the guaranteed rental that gets down to 2 per cent return. I do not feel it would be proper for a government guarantee, in the case of a project not going well, to provide much more than a 2 per cent return on equity.

Q. As I understand it you are doing so in the case of mortgages, under the proposed new mortgages?

The CHAIRMAN: Home ownership.

By Mr. Macdonnell:

Q. Home ownership, yes.—A. There is no guarantee there. Are we talking about rental insurance at the moment?

Q. We were talking about rental insurance, but now we are talking about mortgage guarantees.

The CHAIRMAN: You mean mortgage insurance.

By Mr. Macdonnell:

Q. I am talking about loans made by an approved lender, through the government, which are to have a certain guarantee.—A. Oh, yes. As to the return of capital and as to interest running for a limited period.

Mr. MACDONNELL: Yes.

The CHAIRMAN: I don't get the point. May we drop it for the moment?

Mr. FRASER (*Peterborough*): I have a question in respect to what Mr. Macdonnell was talking about.

The CHAIRMAN: Make a new point. We were not very clear on Mr. Macdonnell's point.

By Mr. Fraser (Peterborough):

Q. The guarantee under the rental would depend a great deal on the management whether it was a good project or not?—A. Yes.

Q. In regard to loan companies lending on a mortgage, what is the percentage it costs them on a loan? The average per cent, is it 1 per cent, 2 per cent, or what?—A. To operate?

Q. Yes. And to carry that loan in the urban section and outside.

The CHAIRMAN: Mr. Fraser, the question is what will it cost. Mr. Bryden will be here on Tuesday, he is in the lending business. I think it would be better to hold your question until Mr. Bryden is before us unless Mr. Mansur is prepared to answer that question.

The WITNESS: I am prepared to answer it. The last calculation I saw put together by a group of lending institutions, combined so that they remained anonymous as to each company, showed that the operating expense of an average mortgage portfolio was .85 per cent. Included in that .85 per cent was probably .15 per cent of acquisition cost. I would think under today's conditions the cost of operating an existing mortgage portfolio would be in the range of .6 to .7 per cent.

By Mr. Fraser (Peterborough):

Q. Would that be lowered now with your inspection of these properties?—A. No, because our inspections are part and parcel of the acquisition cost.

Q. Do you think it would make more rental housing available if up to date institutions and homes were erected for aged people so they could get out of these homes of their children—places where they are doubled up?—

A. No, I do not think so Mr. Fraser. I think that the doubling up and occupancy of substandard quarters by aged people if vacated would not have much of the filter process for other families. In other words, I do not think there would be too much space left behind that would be satisfactory to other families. I make one other comment. It may be a comment of prejudice, but I have seen a fair amount of it recently. I think one should have welfare cases in mind for the hostel type institutions for elderly people before such a venture is undertaken. I think there is a great deal to be said for the efforts being made at the present time to give an elderly couple or elderly persons a "place of their own". It is the "motel" type units which have much to commend them rather than putting ambulatory elderly people or elderly couples into the institutional atmosphere.

Q. I do not like the institution myself, but I just mentioned it because at the present time we have these institutions right across Canada and practically each one of them is out of date, not attractive and are firetraps.

One other question. At our first meeting I believe I asked you a question in respect of the garage at Halifax and the inspection. I just want to ask this question. Do you inspect all of the defence projects that are erected?—A. Gagetown, the supply building at Namao, and the operation at Cold Lake are projects for which other arrangements have been made.

Q. They would have their own architects for that?—A. We have been acting for defence construction in all other places but that arrangement is coming to an end as about the 1st of May, 1954.

Q. Has the government asked for your cooperation to figure on buildings for the staff of the Film Board when it is moved to Montreal?—A. No.

Mr. THATCHER: I would like to ask Mr. Mansur a few questions about the cost of labour and cost of production in building and housing. The first houses built under N.H.A. in my city cost \$4,500 some years ago.

The CHAIRMAN: How many years ago?

Mr. THATCHER: About eight or 10 years ago, I should guess. The most recent ones have cost at least \$10,500. I believe that in the first half of 1952 throughout Canada the average cost of building a house under N.H.A. was \$10,200; in the first half of 1953 it was \$10,800; and it is likely to be over \$11,000 in 1954.

By Mr. Thatcher:

Q. Thus the first question I would like to ask is, are construction costs still going up?—A. That is a mixed bag. Lumber during the last twelve or eighteen months has come down. Land has gone up. Efficiency has gone up, productivity has gone up and, therefore, there have been offsets. Certain bulk goods like cement, sand and gravel have gone up. Labour last year was up about 4 per cent. But, I would urge you to remember the hourly rate for labour is but one way to measure the cost of labour.

Q. A lot of people in my constituency think the shortage of mortgage money is one reason they are not getting new houses, but they also feel that the actual price of a house has gone up so much that they cannot afford to purchase. I wonder if you would like to say whether in your opinion the high cost of building, has been as much a deterrent as lack of mortgage money, in getting new houses built in Canada.—A. No.

The CHAIRMAN: Mr. Thatcher, you would be doing this committee a good turn if you prepared yourself for that line of questioning when the home builders and construction people are before us. I will see that you have ample time to deal with that aspect at that time.

By Mr. Thatcher:

Q. Mr. Vanstone of the Bank of Toronto made this statement: "in the final analysis one cannot see in the opening up of new sources of mortgage funds the real solution of the home construction problem. That can only result from a reduction in building costs." Do you agree with that statement, Mr. Mansur.—A. No.

Q. What percentage of building costs, Mr. Mansur are represented by labour costs? Have you any idea?—A. Well now, Mr. Thatcher, we figure that the "on site" wages for a 1,000 foot bungalow, brick veneer, built in central Ontario, are 30.62 per cent of the total cost of the house. To that one must add .21 for unemployment insurance, 1.05 for holiday pay and .46 for workmen's compensation.

Q. That is direct labour cost?—A. Yes, not contemplating any mill work or fabrication of finished articles.

Q. I have seen statements made that labour costs in the construction industry have gone up much more rapidly than ordinary labour costs, is that correct?—A. No, I think quite the reverse.

The CHAIRMAN: He is quoting Jackson now and he is probably right.

The WITNESS: Whether he is quoting Jackson or not, he is not right.

The CHAIRMAN: I think I know who is being quoted. Suppose we save that question for the home builders.

Mr. FLEMING: Could I make a suggestion? It is not a matter of opinion for Mr. Mansur or the home builders. It is a matter for the Dominion Bureau of Statistics.

The CHAIRMAN: He is quoting Dominion Bureau of Statistics.

Mr. FLEMING: That is what we want to get at.

Mr. THATCHER: It has been said that labour costs in the building industry have gone up more rapidly than in other fields. If you could express a definite opinion at the next committee meeting, I would appreciate it.

The CHAIRMAN: I cannot find out. Let us hear what Mr. Mansur has to say, he is pretty close to the problem.

The WITNESS: My recollection is that the increase in the construction field since 1939 is 1.52, and in the industrial field 1.78. Mr. Adamson will get those figures for me in a moment, but I think I am correct in saying that the industrial wage level has gone up more rapidly than the construction wages.

Mr. FLEMING: On a point of order, Mr. Chairman, I think we want a sound approach to this. If we are going to have figures on this, we should have the official figures and we should have enough of them so that we will have a proper starting point in order to make a comparison.

Mr. CAMERON: The difference in efficiency must be considered, too. Unless we have figures relating to changes in both types of construction, as well as certain materials, I do not think we will get comparable figures.

The CHAIRMAN: I am not sure you can get comparable figures. Let us have Mr. Mansur's best view?

The WITNESS: The rise in the construction labour wage rates was 152 per cent from 1939 to 1953, and was below the general wage increase which for all industry was 178 per cent.

By Mr. Thatcher:

Q. What is that from?—A. D.B.S.

Q. What date?—A. From 1939 to 1953.

Q. It is a recent report you have then?—A. Yes, to the end of 1953.

Q. Just one more question. Again, it is a statement which I have read in various sources and I wonder if Mr. Mansur would care to comment on it. Statements have been made that labour costs in the housing field are getting so high that if they go much higher there will be a danger that they would price themselves out of the market. Do you think there is any validity to that statement or are we getting anywhere near that position?—A. Once again, Mr. Thatcher, I think the wage rate is just one factor. I suggest to you there was less actual labour cost in a house built in 1935 than there was labour cost in a house built in 1951, notwithstanding the fact that the wage rates were higher in 1953 than in 1951.

By Mr. Fleming:

Q. To clear up the last answer, are you speaking absolutely or relatively?—A. What I mean by that, Mr. Fleming, is, I believe the increased productivity has outrun the increase in the hourly wage rate.

Q. In other words, your answer is given in absolute terms, not relative terms?—A. My answer is couched in absolute terms as it relates to dollars spent by the builder for the "on site" wage content of the house which he is building.

The CHAIRMAN: That is a very important answer, and rings well to my ears.

Mr. CAMERON: Mr. Chairman, I would like to get back to some of Mr. Fleming's questions.

The CHAIRMAN: You have five minutes.

By Mr. Cameron:

Q. Can you, Mr. Mansur give me any idea of the range of rentals of the rental premises that have been built either under the limited dividend companies or the rental insurance?—A. Under the limited dividend provision for a house of about a 1,000 to 1,100 feet with three bedrooms, full basement, row-housing type, we will not finance that house if the rental runs over \$60 a month. That is our ceiling. They have come in in Calgary at \$57, and the ones in Saskatoon are in at \$59. We just will not go over 6 cents a foot. unheated.

Now, in the rental insurance, for apartment houses we will not go over \$87 for 800 square feet of fully serviced apartment houses. By fully serviced I mean heated, domestic hot water, and full janitor service. The range is perhaps \$84 to \$87 for 800 square feet, fully serviced.

Q. Would you say, Mr. Mansur, that that pretty well covers the rental range in these apartment houses? There would not be very many rental apartment premises which would rent for lower rates?—A. No, there would be very few which would rent for say less than \$80.

The CHAIRMAN: Mr. Hellyer?

By Mr. Hellyer:

Q. Mr. Mansur, you said a moment ago that some prices on some components of the house had increased in the last two years and that land, in particular, had increased. Can you give us an idea of the cost of a fully serviced lot in the Toronto area at the present time?—A I think that the going price for fully serviced lots, reasonably located in Toronto is \$55 to \$60 a front foot, which is \$2,750 to \$3,000, fully serviced.

Q. They range up to \$3,000 a lot, fully serviced?—A. Yes.

Q. What proportion of that cost do you think would be entailed in the actual services? That is, the sewer, water, road, and whatever is included?—A. \$35.

The CHAIRMAN: Out of \$2,700?

The WITNESS: Per foot.

By Mr. Hellyer:

Q. That is pretty generous.—A. It depends on the level of service. If all that is put in is a gravel road and sewer and some water it would be less than \$35, but if it includes sidewalks, street lighting, curbs and pavements, storm sewers, sanitary sewers and water, it will be something over \$35, I would think.

Q. How much of the cost of one of those lots do you think could be saved if the land were assembled under the dominion provincial provisions under the old section 35, or under the comparable section of the new Act, and made available to builders or prospective home owners?—A. The land increment of \$700 or \$800, maybe.

Q. Per lot?—A. Yes.

Q. How many housing starts would there be in the Toronto area per year approximately now?—A. I have the actual figure here, Mr. Chairman, if I can find it. The figure is 11,545 in 1953, as compared with 9,735 in 1952.

Q. If that is so, Mr. Mansur, over 11,000 units, would it be fair to say that had sufficient serviced lots been provided under this section of the Act previously, there would have been a saving to the home purchasers in the city of Toronto in the neighbourhood of \$10 million a year?

The WITNESS: If you mean that if land had been assembled in Toronto without the land assembler being properly paid for the risk he takes on the capital he invests, or had it been done on a non-profit basis, financed by the government, and if that had been done for the home ownership portion of the 11,545 starts, whatever that is, then I think that the home owner, always provided a maximum sale price limitation worked properly, would have saved "x" units multiplied by \$700

By Mr. Hellyer:

Q. Mr. Mansur, is it fair to say that land assembly generally, traditionally at least, is considered a function of municipal governments in cooperation with the governments of the provinces?—A. No.

Q. Do you think it is a function of private enterprise?—A. I would rather see it done by private entrepreneurs, but I think that the traditional land increment, which has gone throughout the ages with the development of land, is one of the reasons why perhaps there is room for government in the assembly of land.

Q. I notice by your schedule that you have made forward commitments for the assembly of some 8,000 serviced lots in the metropolitan Toronto area. Have you any idea as to what the actual cost per lot will be, the economic cost per lot?—A. The raw land will come out at about \$400 to \$500. Depending upon the level of quality of services imposed upon us by the municipality they may cost \$1,700 to \$1,800. We might produce land fully serviced, services paid, for \$2,000 or \$2,200 per lot.

The CHAIRMAN: The metropolitan mayor said that that land would be available at approximately \$950 a lot, fully serviced.

The WITNESS: Subject to taxes.

The CHAIRMAN: Yes.

The WITNESS: Well, it depends what he intends as services, but if he is going to put in sidewalks, lighting, curbs, gutters, sanitary sewer, storm sewer, and water, on 50 feet of land, I think he will be at the \$35 per foot we are talking about, and \$35 times 50 is \$1,750. If the land is accumulated at \$2,000 an acre, the raw land cost will be \$450. \$450 and \$1,750 makes \$2,200.

By Mr. Hellyer:

Q. If that is the case, then the statement which has appeared in many Toronto papers attributed to the metropolitan mayor that houses could be built, in this proposed area, for \$2,000 or more less than can be produced in other areas closer to the city would be not correct?—A. There is one qualification I think should be made. I have not seen Mr. Gardiner's statement, but in some of the land assembly projects the cost of the land is the raw land cost plus a proportion of the capital cost of the services. The remaining portion of the capital cost of the services is placed against the land under the equivalent of a local improvement basis. Now, what Mr. Gardiner may have in mind is an arrangement something like this—he sells \$450 worth of raw land, another \$450 worth of services, and leaves \$1,300 of services to be paid by local improvements over the next 15 years. I do not know.

Q. He may have been thinking that, but he didn't say that. One more question, Mr. Chairman. The price of raw land you mentioned was \$2,000 an acre. I don't know just what it is, but it seems to me that land closer in is available. Say it were available at \$3,000 an acre, which would be a difference, say, of approximately \$200 a unit, then do you think that for an additional \$200 it would have been advisable to assemble land closer to the city rather than going so far out?—A. It would depend upon the nature of the land which was closer, as to whether it was of sufficient acreage and also on its location. I find that question pretty hard to answer, unless I could examine the land. We may be comparing apples and horses.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: I just want to clear up a misunderstanding which apparently arose between Mr. Mansur and myself. All that I was saying, and I think it is correct, is that on the insured mortgage there is in effect a guarantee of the interest rate, whatever it may prove to be, until six months after the interest period. That was all I was pointing out, in comparison with the two per cent guarantee in the other case. Thank you, Mr. Chairman.

The CHAIRMAN: It is now after 5.30.

Mr. CANNON: Just one question. I have one question that I think should be asked and has not been already covered. The matter of the financial ability of the applicant to shoulder the loan he wants to make is very important, and I see on page 26:

In assessing such income, the lender is free to include, if he so wishes, any investment income of the applicant's wife and 20 per cent of the wife's salary, if she is gainfully employed.

Now, is that under regulations? I suppose these things are fixed under regulations?

The WITNESS: Yes, but the regulation, Mr. Cannon, is permissive. That is perhaps one point I did not make clear this morning. It does not make much difference whether the regulation or the policy of Central Mortgage establishes 23 per cent, or 33 per cent, or 43 per cent. In the final analysis, it is the lender, processing the application, who determines the "thinness" of the credit risk which he is prepared to take. As I mentioned this morning, Mr. Cannon, this 20 per cent of the wife's income is my guess of the regulations as is the 23 per cent debt service ratio. This is nothing much more nor less than our saying to the lending institution: "We don't want you to send applications in to us unless they are over 23 per cent. If they are over 23 per cent, let's take a look at them together".

Q. Twenty-three per cent, did you say?—A. At present the regulation is 23 per cent.

Q. It seems to me that if both the applicant and his wife are working, you are very much on the safe side if you take only 20 to 23 per cent of the wife's salary into account.—A. In my evidence this morning I indicated that the percentage of wife's earnings was being considered. I think I suggested 15 to 40 per cent as a range; but once again that is something to be determined by the Governor in Council; and in my evidence I made it very clear that that 23 per cent was merely a guess.

Q. Thank you.

The CHAIRMAN: Gentlemen, on Tuesday we are to have the Dominion Mortgage and Investment Association, which will be represented by Mr. Bryden. He will probably be with us all day, and there will be two meetings. I suggest that all of you who have an interest in that aspect of the problem should prepare yourselves in advance and listen to his brief and be ready to question him on it.

In so far as Mr. Mansur is concerned, his questioning is now at an end. It is true that Mr. Fleming has a few questions. We shall try to find some time at another meeting for Mr. Fleming to question Mr. Mansur.

There will be an opportunity perhaps some day next week if we find that one of our witnesses just does not live up to expectations. Then we might use Mr. Mansur as a pinch-hitter.

In the meantime I know that I voice the thought of the committee when I express to you, Mr. Mansur, how deeply indebted we are for the excellent presentation you have made and your manner of giving information to the members of the committee.

The committee is now adjourned until Tuesday next, February 16. at 11:00 a.m.

Locality	Projects approved			Projects financed under sec. 43			Contracts issued		
	No. of projects	No. of units	Total estimated costs (\$'000)	Maximum annual rent (\$'000)	No. of loans	No. of units	Amount (\$'000)	Number	No. of units
Ajax, Ont.	2	274	2,134	254	2	274	1,707	1	238
Brantford, Ont.	1	46	355	41	—	—	—	1	46
Calgary, Alta.	1	456	4,184	491	1	456	3,275	—	—
Dartmouth, N.S.	5	679	5,818	700	5	679	4,345	2	19
Digby, N.S.	2	18	98	13	1	10	43	1	10
Edmonton, Alta.	21	1,418	10,528	1,388	24	1,257	7,639	15	862
Granby, P.Q.	4	56	354	41	4	56	265	4	56
Guelph, Ont.	1	28	232	27	1	28	169	—	—
Hamilton, Ont.	17	493	3,722	470	3	84	504	20	493
Kitchener, Ont.	3	96	779	87	1	15	85	3	96
London, Ont.	3	132	953	125	3	86	489	4	132
Moncton, N.B.	1	22	142	18	1	22	116	1	22
Montreal, P.Q.	113	10,363	72,604	8,717	406	8,435	44,864	315	9,513
Niagara Falls, Ont.	2	30	222	27	1	15	90	2	30
Oakville, Ont.	1	15	112	15	1	15	355	1	15
Oshawa, Ont.	2	62	463	63	2	62	355	2	62
Ottawa, Ont.	31	1,534	14,775	1,861	35	1,304	7,813	21	1,281
Peterborough, Ont.	1	30	229	32	—	—	—	1	30
Quebec, P.Q.	2	186	1,249	173	2	186	992	1	162
St. Catharines, Ont.	2	62	419	58	1	30	165	2	49
St-Jean, P.Q.	1	72	450	50	1	72	345	1	72
Sarnia, Ont.	1	52	346	52	1	52	294	1	52
Sherbrooke, P.Q.	1	18	116	14	—	—	—	1	18
Three Rivers, P.Q.	3	64	424	50	3	64	331	3	64
Toronto, Ont.	68	3,810	33,345	4,029	47	2,474	16,559	48	2,774
Tratfalgar Twp., Ont.	2	52	399	49	2	52	415	2	52
Vancouver, B.C.	8	143	1,022	131	1	78	291	7	131
Verdun, P.Q.	1	78	571	54	—	—	—	—	—
Victoria, B.C.	9	181	1,281	176	1	21	118	8	166
Waterloo, Ont.	1	21	160	20	1	21	118	—	—
Welland, Ont.	1	83	111	11	1	11	66	1	11
Windsor, Ont.	1	96	1,120	104	1	96	963	1	88
Winnipeg, Man.	13	453	3,286	466	2	149	856	11	462
Total.....	352	21,331	161,975	19,807	553	16,158	93,305	481	17,027
									12,917

¹ Number of loans and number of projects do not necessarily equate as a project may be financed in stages by a series of loans.

APPENDIX "B"

MOOSE JAW

In April, 1951, the City of Moose Jaw conducted a housing survey which produced 8,834 responses from those who thought they needed housing.

On September 11th, 1951, the City asked the Province to consider 75 single, subsidized units. On February 7th, 1952, the provincial government recommended the project to the Federal Government, and on February 18th, 1952, the Federal Government approved the project.

On September 11th, 1952, the City asked the Province to consider an additional 75 units. On January 17th, 1953, the Province asked opinion of the Federal Government, which was that the addition of a like number of units be considered after there was some experience with the first project. In subsequent discussions it was suggested that as the new project would need additional land, the initial step should be a land assembly operation with some of the lots to be used for the additional rental project and the balance to be made available to home owners and builders.

On October 29th, 1953, the City formally requested the Province to consider a proposal for developing some 60 city blocks in stages. The matter is under discussion but approval in principle has not been received from the Province.

The experience with applications for subsidized rental units has been:

Following the initial advertisement in January, 1953, 281 applications were received, of which almost one half were rejected or withdrawn. On September 25th, 1953, there were 56 applications pending. On February 10th, 1954, there were 54 applications approved and 11 applications pending investigation. In all 65 live applications.

APPENDIX "C"

FLIN FLON

The Veterans' Land Administration advised us that a group of some 30 veterans in Flin Flon were interested in building houses for themselves. V.L.A. officials, before proceeding with Flin Flon, had a talk with our Winnipeg office. At Flin Flon they met a group representing 40 veteran families to discuss the problem with them.

They quickly discovered that the majority of this group hoped to be able to build a dwelling with no equity other than owner labour. They hoped to obtain 90% loans and provide the 10% equity with owner labour. When they were advised that 90% loans were not available, the majority of the group lost interest. At the moment there appear to be about 6 veterans in Flin Flon who are willing to proceed with the aid of a N.H.A. joint loan.

Since 1946 there have been 140 joint loans in Flin Flon and about 30 conventional loans by a lending institution. The present position is that not more than 6 veterans are willing and able to proceed under present arrangements.

APPENDIX "D"

SCHEDULE OF MONTHLY MORTGAGE PAYMENTS AND REQUIRED ANNUAL INCOMES

EXAMPLE 1: House Cost \$10,000 (including Land \$1,000)—Taxes estimated at \$200. Loan \$8,772 (including fee \$172)—Gross Debt Service Ratio 23%.

Interes rate		20 years	25 years	30 years
%		\$ cts.	\$ cts.	\$ cts.
2	.....	44 34	37 15	32 39
	Annual income required.....	3,183 00	2,808 00	2,559 00
2½	.....	46 43	39 30	34 61
	Annual income required.....	3,292 00	2,920 00	2,675 00
3	.....	48 57	41 52	36 90
	Annual income required.....	3,404 00	3,036 00	2,795 00
3½	.....	50 76	43 80	39 27
	Annual income required.....	3,517 00	3,155 00	2,918 00
4	.....	53 01	46 14	41 71
	Annual income required.....	3,635 00	3,277 00	3,046 00
4	.....	55 30	48 55	44 23
	Annual income required.....	3,755 00	3,403 00	3,177 00
5	.....	57 65	51 02	46 82
	Annual income required.....	3,877 00	3,531 00	3,312 00
5½	(Present rate).....	58 83	52 27	48 13
	Annual income required.....	3,939 00	3,597 00	3,381 00
5½	.....	60 04	53 54	49 47
	Annual income required.....	4,002 00	3,663 00	3,451 00
5¾	.....	61 25	54 83	50 82
	Annual income required.....	4,065 00	3,730 00	3,521 00
6	.....	62 47	56 12	52 18
	Annual income required.....	4,129 00	3,798 00	3,592 00

SCHEDULE OF MONTHLY MORTGAGE PAYMENTS AND REQUIRED ANNUAL INCOMES—*Concluded*

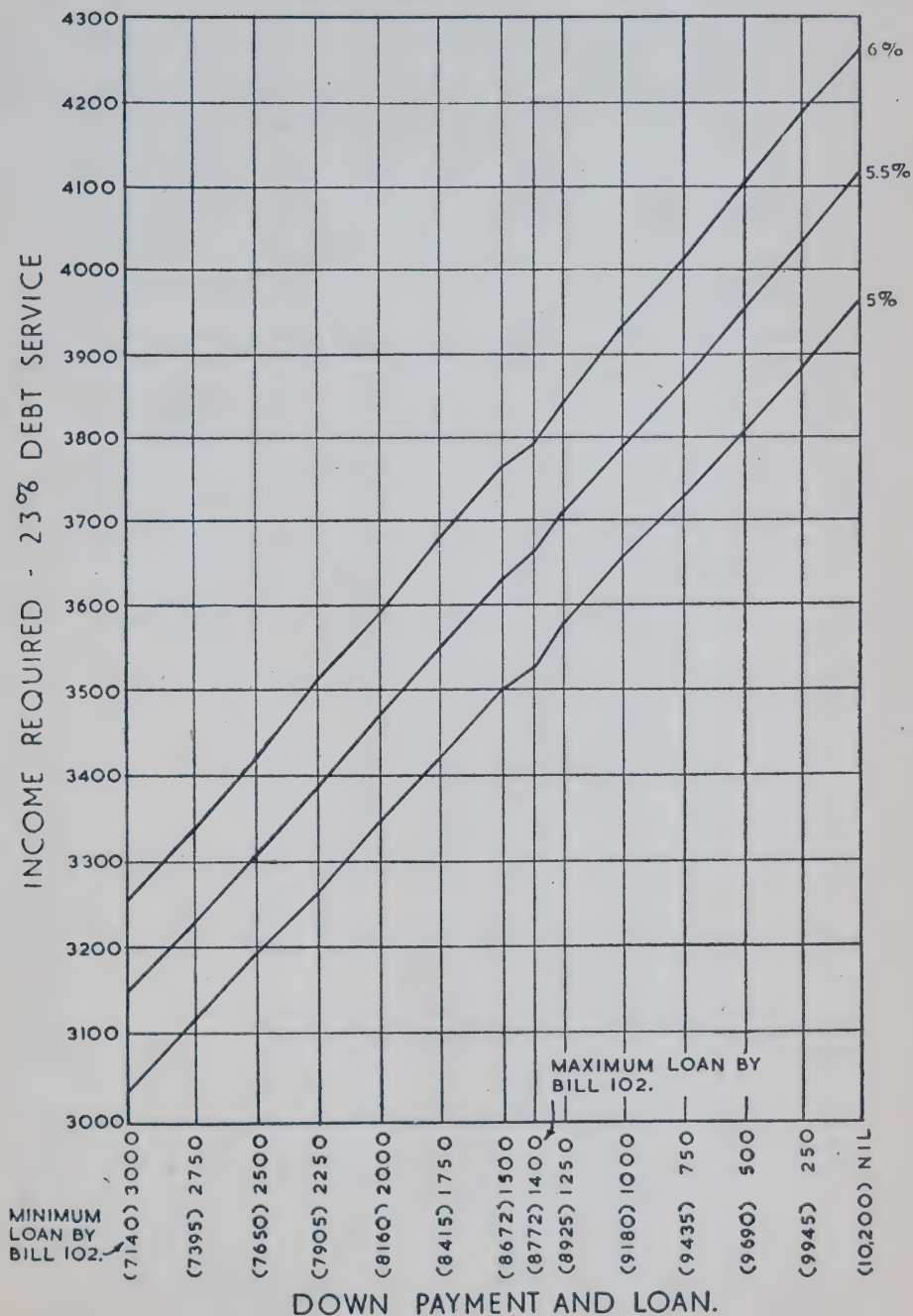
EXAMPLE 2: House Cost \$12,000 (including Land \$1,500)—Taxes estimated at \$240. Loan \$10,200 (including fee \$200)—Gross Debt Service Ratio 23%.

Interest rate	20 years	25 years	30 years
<u>%</u>	<u>\$ cts.</u>	<u>\$ cts.</u>	<u>\$ cts.</u>
2	51 56	43 19	37 66
Annual income required.....	3,734 00	3,297 00	3,009 00
2½	53 99	45 70	40 24
Annual income required.....	3,860 00	3,428 00	3,143 00
3	56 48	48 28	42 91
Annual income required.....	3,990 00	3,562 00	3,282 00
3½	59 03	50 93	45 67
Annual income required.....	4,123 00	3,701 00	3,426 00
4	61 64	53 66	48 50
Annual income required.....	4,260 00	3,843 00	3,574 00
4½	64 30	56 46	51 43
Annual income required.....	4,398 00	3,989 00	3,727 00
5	67 03	59 33	54 44
Annual income required.....	4,541 00	4,139 00	3,884 00
5½	68 41	60 78	55 96
(Present rate).....	4,613 00	4,250 00	3,963 00
Annual income required.....			
5¾	69 81	62 26	57 52
Annual income required.....	4,686 00	4,292 00	4,045 00
5½	71 23	63 76	59 09
Annual income required.....	4,760 00	4,370 00	4,126 00
6	72 65	65 26	60 67
Annual income required.....	4,834 00	4,448 00	4,209 00

APPENDIX "E"

HOME OWNERSHIP INCOME RELATIONSHIP TO
DOWN PAYMENT AND INTEREST RATE.

SALE PRICE	\$10,000.
TAXES	\$ 200.
AMORTIZATION TERM	25 YEARS
INSURANCE FEE	2 %



Canada - Banking and Commerce,
Standing Committee on 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

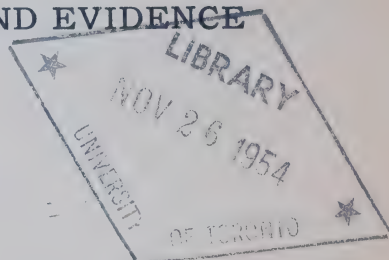
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6



BILL 102

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

TUESDAY, FEBRUARY 16, 1954

WITNESS:

Mr. J. T. Bryden, President, The Dominion Mortgage and Investments Association.

MINUTES OF PROCEEDINGS

TUESDAY, February 16, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Bennett (*Grey North*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Gagnon, Hellyer, Henderson, Huffman, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, McIlraith, Mitchell (*London*), Monteith, Philpott, Pouliot, Quelch, Rouleau, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: The Honourable Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation; Mr. J. T. Bryden, President, and Mr. J. E. Fortin, Secretary Treasurer, of The Dominion Mortgage and Investments Association, Toronto; Mr. R. H. Reid, Vice-President, London Life Insurance Company, London; Mr. G. A. Golden, Assistant Superintendent of Mortgages, Sun Life Assurance Company, Montreal, and Mr. L. G. Goodenough, Q.C., Counsel for the Dominion Mortgage and Investments Association, Toronto.

The Chairman presented the Second Report of the Agenda Committee. (*See this day's evidence*)

On motion of Mr. Stewart the said Report was adopted.

The Committee then resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Bryden was called, presented a brief on the said bill and was examined thereon.

At 1.00 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. Croll, the Chairman, presiding.

Members present: Messrs. Adamson, Ashbourne, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hellyer, Henderson, Huffman, Low, Johnston (*Bow River*), Macnaughton, McIlraith, Mitchell (*London*), Monteith, Philpott, Quelch, Rouleau, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Same as at the morning sitting, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee continued with the examination of Mr. Bryden.

At 5.30 o'clock p.m., the examination of the witness before the Committee being concluded, he was retired, and the Committee adjourned to meet again at 3.30 o'clock p.m., Wednesday, February 17, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 16, 1954,
11.00 A.M.

The CHAIRMAN: Gentlemen, I see a quorum. Your agenda committee begs leave to present the following as its second report:—

“Your committee met at 2.00 o'clock p.m., Monday, February 15th, 1954. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Croll, Macdonnell, McIlraith, Noseworthy, Quelch and Weaver.

The following agenda was agreed upon:

FEBRUARY

Tuesday, 16th, a.m.; p.m. The Dominion Mortgage and Investments Association—Mr. J. T. Bryden.

Wednesday, 17th p.m.—Private Bills: (1) Bill No. 170 (Letter T-3 of the Senate), intituled: “An Act respecting The Associated Canadian Travellers”; (2) Bill No. 174 (Letter Q-5 of the Senate), intituled: “An Act respecting The Great Lakes Reinsurance Company”.

The National Co-operative Union of Canada, Mr. R. S. Staples.

Thursday, 18th a.m.; p.m.—Mr. Graham Towers, Governor of the Bank of Canada.

Friday, 19th a.m.; p.m.—Canadian Bankers' Association, Mr. T. H. Atkinson.

Tuesday, 23rd a.m.—Canadian Congress of Labour, Dr. E. A. Forsey; p.m.—The Trades and Labour Congress, Mr. Percy R. Bengough.

Wednesday, 24th p.m.—The Canadian and Catholic Federation of Labour, Mr. Gerard Picard.

Thursday, 25th a.m.—National House Builders Association, Mr. R. K. Fraser, Mr. Gordon S. Shipp; p.m.—Canadian Construction Association, Mr. R. Brunet.

Friday, 26th a.m.—Canadian Federation of Mayors and Municipalities, Mr. J. O. Asselin, Mr. George S. Mooney; p.m.—Canadian Legion, B.E.S.L., Mr. T. D. Anderson.

At 2.30 o'clock p.m. the committee adjourned to the call of the chair.

DAVID A. CROLL,
Chairman.

Gentlemen, your time has been spoken for, for the next two weeks. You will be very busy.

The Canadian Federation of Agriculture indicated that they did not wish to be heard.

Will someone move the adoption of the report of the agenda committee?
(*Report of the agenda committee adopted.*)

This morning we have Mr. J. T. Bryden. He will read his presentation, and I will ask you not to interrupt him. When he finishes we will take a break and then the questioning will start.

Mr. J. T. Bryden, President, The Dominion Mortgage and Investments Association, called:

The WITNESS: Mr. Chairman and honourable members, the Dominion Mortgage and Investments Association appreciates the opportunity which has been given to it to place before the committee its views respecting Bill 102, the National Housing Act, 1954, with particular reference to those sections which deal with the proposal of mortgage insurance.

The association is a voluntary organization composed of 24 life insurance, 15 trust and 7 loan companies. It was organized in 1916, and since then has provided a focal point to discuss and deal with matters of common interest to those companies in regard to their investments. While it does not include all such companies operating in Canada, its membership represents the major portion of the business in Canada.

The members of the association do business throughout the whole of Canada. Their assets in Canada at the end of 1952 were some \$4,595 million, of which \$1,430 million was invested in mortgages on real estate in Canada. The funds that these companies have for investment are entrusted to them by the public of Canada through the sale of life insurance, the deposit of moneys with loan and trust companies and the sale by these companies of their debentures and savings certificates.

These companies are a major source of long-term credit in Canada. They invest in the bonds and other securities of Canada, its provinces, its municipalities and school districts. They finance public utilities, industrial and commercial enterprises in their long-term capital requirements. They provide a major part of the mortgage funds which assist in the construction and purchase of housing.

The funds entrusted to them may be invested in such a way that they may be returned in due course with interest to policyholders, depositors and holders of debentures and other securities. It follows that a policy of careful selection, continuing supervision and wide diversification must be pursued. In so doing these funds tend to flow into those investment areas which from time to time seem to afford the best income return within the factors of safety, liquidity and administration costs. The assets of these companies are not static but are a dynamic, growing, revolving fund constantly adapted to the economic needs of the community as investment and reinvestment occurs.

There has been great competition for these funds in recent years. Provincial governments, municipalities, school districts, hospitals, public utilities, industrial and commercial enterprises, and the individual who wants housing, all have had and still have important and pressing requirements.

The companies in the investment of their funds have been fully conscious of housing needs in Canada and their record is proof of this statement.

1. During the 6 years ending with 1952, member companies have approved mortgage loans in Canada involving \$1,861 million of their funds (excluding the government's share of loans under the National Housing Act). Loans for housing accounted for \$1,471 million or 79 per cent.
2. During the same 6 years, the assets in Canada of these companies increased from \$2,957 million to \$4,595 million or by \$1,638 million. Thus the mortgage loans on property in Canada approved by the companies were \$223 million greater than the increase in their

Canadian assets. If repayments on mortgage loans of \$723 million during this period are added to the increase in assets, then mortgage loans approved were 78·8 per cent of this total and those for housing purposes were 62·3 per cent.

In addition member companies have been the major medium through which the government's share of joint loans have been processed. During the same 6 years ending in 1952, 41 of our 46 member companies have processed gross mortgage loan approvals, including the government's share of joint loans, of \$2,045 million, of which \$1,668 million was for housing. Preliminary results for 1953 establish that it was a record year. The experience for the last few years is set forth in the following statement:

Gross Approvals—\$ millions	1953	1952	1951	1950	1949
Housing Properties	418·6	357·1	296·2	368·4	261·3
All Properties	490·1	419·3	358·0	434·2	321·6

At the end of 1952, the last year for which complete figures are available, member life insurance companies held mortgages on Canadian properties to the extent of 29·8 per cent of their assets in Canada, loan companies to the extent of 73 per cent, and trust companies to the extent of 34 per cent. At the end of 1946 the corresponding percentages were 14·7 per cent, 50·8 per cent and 23 per cent.

All of the assets of member companies cannot be placed in any one kind of investment, whether it be into mortgages in general or into housing mortgages in particular. For example, housing finance is not confined to the bare lot and house. It involves the financing of roads, sewers, water-mains, light and power, schools, shopping facilities and the other amenities which have become necessary or desirable in community living as we know it in Canada. Also industry and commerce have capital requirements which must be met if employment opportunities are to be available to enable the house purchasers to pay for their homes.

The period preceding the second world war was largely one of adjustment and liquidation of mortgage debt. During the war member companies used the bulk of the moneys coming into their hands to help finance Canada's war effort. By the end of the war, Canada bonds formed a large part of the assets of these companies. Since that time, the companies have been reconstituting their growing portfolios to recover the balanced diversification of assets which management and experience have indicated as desirable. In the result, holdings of Canada bonds have been reduced substantially and other kinds of assets have been increased, notably mortgage loans. However, the need for liquidity and safety so inherent in the handling of investments by our member companies requires that a portion of their funds must remain in the form of government and other bonds.

We are unable to hazard a guess as to what might be the amount of money available from member companies for investment in mortgages of all types or in mortgages for housing purposes over the next several years. We can indicate, however, that the pace of mortgage loan investment set in the last four years, and particularly in 1953, cannot be expected to continue indefinitely.

It seems probable that the volume of funds of member companies seeking investment in the mortgage field will become something of the order of the reinvestment of mortgage repayments plus the portion of its net increase in assets which each company considers to be desirable in its own case to give effect to its own liquidity and diversification requirements.

For the six years ending with 1952, the mortgage loan approvals of member companies assisted in the financing of 372·8 thousand new and existing housing units, being 244·2 thousand single units and 128·6 thousand units in multiple dwelling structures. For 1953, the number of housing units so assisted was 71·9 thousand units, of which single units accounted for 46·4 thousand units and in multiple structures for 25·5 thousand units. The following table indicates for the year 1946 and for 1951 to 1953 inclusive the number of units so assisted:

	1953	1952	1951	1946
New Residential Units	49,022	40,454	33,819	22,424
Existing Residential Units	22,844	23,650	25,026	25,089
Total	71,866	64,104	58,845	47,513
New Single Units	31,961	27,383	25,026	15,794
New Multiple Structure Units	17,061	13,071	8,793	6,630
Total New	49,022	40,454	33,819	22,424
Existing Single Units	14,392	14,257	14,860	13,611
Existing Multiple Structure Units ..	8,452	9,393	10,166	11,478
Total Existing	22,844	23,650	25,026	25,089
Total—New and Existing	71,866	64,104	58,845	47,513

The number of units whose financing was thus assisted has not kept pace with the dollar amount of loan approvals. The lag is due to the combination of large loans and of higher costs for housing and some trend toward increased accommodation per unit. For 1953 the average loan in respect of a new house was \$7,990—in 1946 it was \$4,600. The loan on an existing house in 1953 was \$4,586, while in 1946 it was \$3,346.

Average Loan	1953	1952	1951	1946
New Single House	\$7,990	\$7,790	\$6,855	\$4,600
Existing Single House	4,586	4,480	4,267	3,346
New per Unit in Multiple Structures	4,659	4,491	4,517	3,267
Existing per Unit in Multiple Structures	2,100	2,258	2,114	1,741

If the down payment is further reduced as is contemplated in Bill 102, the number of units which can be financed with the same money will decrease. Further, and even of more importance, the abandonment of joint lending under the National Housing Act and the consequent withdrawal of the government's $\frac{1}{4}$ share of the joint loans will mean that, whereas each \$75 of company money resulted in a \$100 loan to the borrower, it will now take \$100 of company money to make the same loan. Thus, in addition to the decrease in the number of units which can be financed because of larger loans, the funds of member companies in respect of National Housing Act loans will not go as far in the number of units financed. More liberal financing terms in the past have demonstrated the dangers of accompanying increases in the cost of homes to the purchasers.

Commencing with the enactment of the Dominion Housing Act in 1935, parliament, for both economic and social reasons, has moved in many directions to facilitate the provision of mortgage credit for housing, to improve standards of construction and to widen the area of effective demand by lowering the amount of down payment and by extending the period of amortization. In so doing however, it has created for the lender risks additional to those recognized as being ordinary by legislation generally in effect in Canada which sets the statutory limit of mortgage loans which the companies are authorized to make at a maximum of 60 per cent of appraised value. The companies were authorized to make higher ratio loans jointly with the government and subsequently with Central Mortgage and Housing Corporation and the additional risks were met by the partial guarantee provisions of the Dominion Housing Act and those of the National Housing Act. To the extent of the funds available to them and in keeping with the principles of diversification the companies have co-operated in meeting the demand for housing mortgage credit. Members of the Association have probably provided in excess of 90 per cent of the institutional funds loaned under the Dominion and National Housing Acts.

The present bill which is under consideration proposes a new system of insurance for higher ratio loans. The insured mortgage loan is an investment vehicle new to Canada. To the extent that the proposal may be difficult in its operation, inadequate in its security and liquidity, or non-competitive in its rate of return, it may fail to attract the funds which parliament hopes will be directed to the financing of new residential construction. We are co-operating with Central Mortgage and Housing Corporation in working out the many problems involved in the satisfactory operation of the contemplated system. We have suggested a number of amendments to the legislation which have been designed to bring this about and to clarify the intent and meaning.

Under present conditions, apart from loans under the National Housing Act, the companies are making mortgage loans on residential property to the maximum extent of 60 per cent of their appraised value, which is generally substantially less than sale price, at rates ranging from 6 per cent to $6\frac{1}{2}$ per cent with termination dates as short as five years. There is strong demand for such loans and they are granted by the companies in the ordinary course of business, and, having regard to risk and costs of administration, they fit in with the pattern of interest rates current in Canada. The insured mortgage proposed calls for larger loans, longer terms and generally longer amortization periods. Not only will the equity of the borrower be less, but the time factor will be longer. The mortgages contemplated by the legislation involve real and substantial additional risks to the lender.

When the word "insured" is used in connection with mortgages, it might be assumed that there is no risk involved. This is not the case under this bill. As it stands there can be virtually no instance where the mortgage claim in the event of trouble can be satisfied without loss to the lender where the insurance offered is relied upon.

The claim for insurance is limited in point of time to a maximum of six months at the mortgage rate and up to an additional 12 months at the mortgage rate less two. Where the mortgagee finds it necessary to take action to enforce his security because of default by the borrower, the time elapsing between the start of the action and the acquisition of title and possession, in order to qualify for the insurance, is a hazard over which the mortgagee may have little control. The mortgagee can be subjected not only to retarding action by the borrower and subsequent encumbrancers, but also to delays of statutory and other requirements designed to afford grace to the borrower

and the mortgagee is further subject to the equitable jurisdiction of Courts whereunder additional delays may follow. Likewise, enactment of moratoria legislation could prevent the commencement and completion of mortgage actions and so postpone further the acquisition of title and in this way add important delays in enabling the mortgagee to realize on the security. These risks can be costly and serious in themselves. They become much more serious and take on added importance where the loan is high in relation to the value of the property. In the ordinary mortgage business the lender is protected by a wide margin between the amount of the loan and the value of the property securing the mortgage, even though moratoria or debt adjustment legislation should intervene. The situation becomes very different, however, where the margin is greatly reduced, such as in the loans contemplated in the bill, and where the repayment period is of such long duration that repayments fail to keep pace in the early years with the physical depreciation and obsolescence. Further, the bill provides for a discount of two percent in respect of the principal portion of the claim for insurance and the six months' interest portion. Also, the allowance made in respect to acquisition of title and possession is likely to be far less than the actual average. Further, no protection is afforded against loss through debt adjustment legislation—federal and provincial.

A prerequisite of the plan of insured mortgages is that the loan is to be based on a lending value determined by Central Mortgage and Housing Corporation, and that valuations and inspections are to be made solely by inspectors, valuers and officers of the corporation, even though the funds are the moneys of private investors. We desire to record our regret that this step is to be taken and to state that we do not agree with the principle involved. The appraisal of the value of the security and its inspection in Canada have been considered to be an essential element of the business of the lender, whether it be a private individual or a lending institution.

Member companies have no mandate to accept a rate of interest lower than the going rate from time to time, having regard to safety, liquidity and administrative cost. The committee will appreciate that it costs much more to acquire and administer a portfolio of mortgage investments than it does a similar amount invested in securities. Much of the success of insured mortgages will depend on the net rate of return to the lender after allowance for the considerable costs of mortgage operation and provision for losses inherent even under the insured mortgage provisions.

Whether or not a large volume of funds will flow into new residential construction through insured mortgages will depend to a great extent on whether the rate of return is competitive with the rates of return on alternative avenues of investment.

The plan of mortgage insurance carries certain rigidities which may be found to be undesirable in the interests of the nation, particularly in times of economic stress. The form and extent of the insurance will force lenders into a less sympathetic approach to the problems of defaulting borrowers. Lending institutions do not desire to acquire possession of mortgaged property. Foreclosure is instituted normally as a final resort after it is apparent that the borrower no longer has the ability or desire to pay. Under the bill, however, if the lenders are to minimize their loss in the interests of their policyholders, depositors, debenture holders and others, the plan forces them to realize on the security and to evict the owner without delay.

Many of the operational features of the plan of insured mortgages are to be contained in the regulations and the form of mortgage deed. Other forms and requirements will also have a great bearing on the costs of administration involved and on the accessibility of the insurance.

We believe that it will be the desire of our member companies to co-operate in making the new system successful within their ability so to do and within the limitations of prudent management in the interests of their policy-holders, depositors, debenture holders and others, whose money is entrusted to the companies.

We desire again to thank the committee for this opportunity of presenting our views and are at your disposal to answer any questions within our ability.

The CHAIRMAN: We will just take a break for a minute, to consider what Mr. Bryden had to say, then we will get to the questioning.

—Upon resuming.

The CHAIRMAN: Might I say, just for your own information, that my list reads as follows: Messrs. Fleming, Pouliot, McIlraith, Stewart, Cameron, Fraser, Applewhaite and Crestohl. Have I missed anyone?

Mr. McILRAITH: Mr. Tucker.

The CHAIRMAN: Yes, Mr. Tucker. I have no doubt that questions will suggest themselves to you as the examination proceeds. It has never failed before. I also have Mr. Johnston. Now, Mr. Fleming.

By Mr. Fleming:

Q. I take it, Mr. Bryden, from what has been said in your brief as well as from the evidence we have had already in this committee, as to the extent to which your member institutions have participated, that you have found that the present system of joint loans under Part 1, has operated well?—A. Yes, I would say that the present system has operated very well, Mr. Fleming.

Q. Can you go beyond what you have said in your brief as to the incipient shortage of mortgage funds with which to carry on an over-all housing construction program in Canada, when we have been talking in this committee of an estimated 100,000 housing units per annum?—A. Well, Mr. Fleming, as far as the association is concerned, it has not carried on any separate enquiries as to the housing shortage. I am quite sure that we all agree that there is one. However, we feel that we have done our best to help to satisfy it. But as far as any figures are concerned, as to what it may be, that is something that each company has regard to in its own investment policy.

Q. You are not in a position then to give us an estimate for your member companies of what might be expected to be the total mortgage funds available, let us say in 1954 if there is a continuation of the present system of joint loans?—A. No, that is something where each company has to make up its own mind with respect to its own investment policy. There is just no way in which you can say what those intentions will be ahead of time.

Q. Are you in a position to say what, in general, would be the feeling of your member companies in regard to the extent of investment that you are prepared to undertake under the new scheme of things, apart from what you have already said in your brief this morning?—A. No. I think the companies' position will be this: That they will want to co-operate. But one of the essential ingredients which you must have before any company could make up its mind, is the complete details of the proposal with regard to insured mortgages, and particularly the rate of return.

Q. In view of that fact, is there likely to be some delay on the part of your member institutions in proceeding with loans under the new scheme, if and when it comes into effect, until they have had an opportunity of watching them in operation?—A. I would not say that. I would think that just as soon as the facts are all known, it won't be very difficult for them to make up their minds.

Q. You have spoken about the difficulties that you anticipate in enforcement under the mortgage that have been insured. May I ask you, in detail, for a comment on what you anticipate the interest rate is likely to be in the light of the circumstances stated in your brief this morning? Speaking now, you cannot state what the mortgage rate will be under the proposed new system. But I am wondering about the value that the institutions are likely to be prepared to place upon the insurance, in relation to the rate of interest that they will wish to attain on their mortgage investment.

The CHAIRMAN: Mr. Fleming, why don't you take an interest rate and work it down? Take any interest rate. Take a lower one, or which ever one you wish.

By Mr. Fleming:

Q. Up to the present time, Mr. Bryden, your lending experience and loans made under Part I are receiving a rate of $5\frac{3}{4}$ per cent; whereas the government is contributing 25 per cent of the loan at the rate of $3\frac{3}{4}$ per cent, which results in a net rate to the borrower of $5\frac{1}{4}$ per cent. Taking out the 25 per cent that the government now contributes and, supposing the new scheme under which lending companies are to subscribe the full 100 per cent of the loan, if we start with an interest rate of $5\frac{3}{4}$ per cent, are you in a position to calculate now to what, if any, reduction of that present rate the lending institutions might be prepared to accept in return for insurance of their loans?—A. I think, Mr. Fleming, having regard to the current mortgage interest rate pattern, in Canada, and having regard to the insurance, as it stands now, it would seem to me that a rate of $5\frac{3}{4}$ per cent would attract a volume of funds into insured mortgages. I think that is as far as I could go.

Q. You are not prepared to make any comment on the suggestion that has been made to us that the insurance might have some value to lending institutions so that they may be induced to accept a slightly lower rate of interest?—A. Mr. Fleming, the current interest rate pattern on conventional loans is 6 per cent to $6\frac{1}{2}$ per cent with a term as short as 5 years; and it is out of that background that you have to consider the value of the insured mortgages. There is already a $\frac{1}{4}$ per cent to $\frac{3}{4}$ per cent weight being given to that insurance, so I suggest that a volume might become available at $5\frac{3}{4}$ per cent.

Q. I do not want to labour this point beyond the extent to which you are prepared to express an opinion. But am I right in suggesting that the effect of your answer is that, as it now stands it is not likely that there will be very much of a departure from the rate of $5\frac{3}{4}$ per cent?—A. Under the existing level of interest rates, I would say that was right, Mr. Fleming.

Mr. TUCKER: We did not hear the answer, Mr. Chairman.

The CHAIRMAN: Will you please speak up, Mr. Bryden.

By Mr. Fleming:

Q. I take it from the reference in your brief on the subject that the changes being made in reducing the down payment and extending the period of amortization may have the effect in part of making the new type of loan less attractive to the lending institution. Is that a fair inference?—A. The lower the down payment, the longer the amortization period, the less attractive a loan becomes, but alternatively the insurance must be weighed. It is a constant weighing process when you come out with the final answer.

Q. On page six of your brief appears the statement: "More liberal financing terms in the past have demonstrated the dangers of accompanying increases in the cost of homes to the purchasers." Are you in a position to express an opinion as to what is likely to be the effect on the cost of homes—

current cost of home construction—as a result of the introduction of the new scheme with all the features we have referred to?—A. It seems to me at any time that you lower the down payment or ease the financing terms you change effective demand, and an increased effective demand with short supply almost invariably pushes the prices up a bit.

Q. Would you in the light of that expect when this new scheme comes into effect, upward pressure on the cost of home construction in Canada?—A. As long as the shortage exists I would think that was perfectly natural.

Q. How long might that, under present conditions, be expected to continue?—A. I would not have an answer to that, Mr. Chairman.

Q. You made reference, Mr. Bryden, at the middle of page seven, to the effect that you have suggested a number of amendments to the legislation which have been designed to bring this about; that is to say affecting satisfactory operation of the contemplated system and clarifying the intent and meaning. When were those suggestions put forward, Mr. Bryden?—A. About two or three weeks ago I would think.

Q. Will these suggestions be made available to the committee. These, I take it, are suggestions you have made for the amendment of the bill. These are not just suggestions with reference to the content of the regulations?—A. No. These are clarifications in the detailed wording of the bill to make the operation more satisfactory.

Mr. MACDONNELL: The chairman has not promised the regulations, but I am hoping he is more sympathetic than he was at the outset.

The CHAIRMAN: When we reach the details of the bill, we will deal with any suggested amendments that are brought forward.

Mr. FLEMING: I am wondering where this group of suggested amendments are now. To whom were they submitted?

The WITNESS: To Mr. Mansur, and through him to the Hon. Mr. Winters.

The CHAIRMAN: And in the light of that they have produced a bill.

Mr. FLEMING: No. These amendments were made two or three weeks ago. Without taking the time of the witness, I presume these suggestions will be made available to us now so that we can give consideration to them.

The CHAIRMAN: We will file the suggested amendments.

Mr. FLEMING: Thank you very much.

By Mr. Fleming:

Q. I have one final question about the matter of the regulations. You have made reference on page ten to the importance of the regulations which are going to be promulgated and the form of the mortgage deed. Would you be good enough to express your opinion on that subject as to the nature of the principles that should be followed in devising the regulations and the form of the mortgage deed? Have you made any detailed recommendations on these subjects to Mr. Mansur or to the minister?—A. Mr. Fleming, we have had several consultations with Mr. Mansur on various points that would arise in the implementation of the bill. We have seen a draft of some regulation which might give effect to particular points. That has been discussed. As far as I know the regulations are only in draft form.

Q. Will those be made available to us?

The CHAIRMAN: Will what be made available?

Mr. FLEMING: The recommendations made by the association with reference to the principles to be followed in the regulations to make this a workable scheme?

The CHAIRMAN: Is not this the case of two legal departments trying to get together on some wording of an agreement? Is this committee really concerned with it?

Mr. FLEMING: I am quite certain that the committee is not going to sit down and write regulations in detail, but there will be some aspects of this question of the regulations which go to the root of the workability of the whole scheme. It is of great importance, and I think the committee will need to have access to those views with reference at least to the sections conferring regulatory powers in the bill. There are such wide powers reserved under the bill in the matter of regulation that I do not think we are going to see this proposed new scheme in its entirety until we know at least the principles that are going to guide those who are going to be responsible for writing these regulations. They go to the heart of the whole new scheme under the bill.

The WITNESS: Mr. Chairman, we have made no specific recommendations with regard to regulations. We have discussed various points, but as far as any specific regulations are concerned, this association has not made them.

The CHAIRMAN: What you have done is to give them the benefit of your experience and advice?

The WITNESS: That is right.

Mr. FLEMING: In the matter of legislation, however, you have made definite recommendations there for amendments?

The WITNESS: That is right.

The CHAIRMAN: Those will be made available as I have already indicated.

Mr. FLEMING: Thanks, Mr. Chairman.

By Mr. Pouliot:

Q. We all appreciate your coming here, Mr. Bryden. I was very interested in your statement that your organization is composed of 24 life insurance companies, 15 trust companies, and 7 loan companies. Does this include all of the life insurance companies operating in Canada?—A. Not all, no.

Q. What proportion, please?—A. I think the life company members of our association probably represent 90 per cent of the business in Canada.

Q. Yes. Now, does it include insurance companies that are not Canadian? —A. We have two member companies operating in Canada which are not Canadian companies.

Q. And the other companies that are not Canadian do not belong to your association?—A. That is right.

Q. When you speak of 90 per cent, is it 90 per cent of the assets of the life insurance companies and trust companies?—A. Yes, I would think so.

Q. Yes, but your association does not include fire insurance nor casualty insurance?—A. No, sir.

Q. Those assets are different from yours?—A. Yes.

Q. In other words, the \$4,595 million representing the assets of these companies in Canada are the assets of your 46 member companies as you mentioned in your brief, and you use your assets in Canada to promote Canadian business?—A. That is right.

Q. Now, Mr. Bryden, how were the investments or the loans made outside of large cities? It was very difficult, as you know, to get some housing loans outside of the larger cities. What was done with the money paid by the people who were insured in any one of your companies? I cannot see

that they enjoyed and benefit from it with regard to housing facilities. Take for instance my constituency, which is 400 miles from here and about 120 miles east of Quebec City. It was almost impossible to get a loan from an insurance company down there. What was the policy of your association with regard to making loans outside of large cities such as Montreal, Toronto and other places?—A. Well, Mr. Pouliot, as far as the members of the association are concerned they have branch offices pretty well across Canada and in their mortgage loan operations, even as late as 1952, they certainly loaned in a very large number of communities over 5,000 in population and not just in the large metropolitan areas. One of the difficulties, I think, that all members of the association have been having in the last few years is that there is only so much money to go around and we have tried to make it go as far as we could and yet we certainly were not able to satisfy the demand that existed for mortgage finance.

Q. But, if you had made such loans you realize that it would have prevented to a certain extent congestion in over-populated cities?—A. Yes. Mr. Chairman, on the point Mr. Pouliot raises, I have here a list of the centres of 5,000 population and over in Canada in which some member of our association made a loan or loans in 1952.

The CHAIRMAN: Would it indicate the number of loans your association made?

The WITNESS: I am sorry, it does not indicate the number of loans but indicates instead the area where they were made.

The CHAIRMAN: I think that is a matter of interest to the members of the committee. Have I leave to put it on the record?

Mr. FLEMING: At this point?

The CHAIRMAN: Yes.

Hon. MEMBERS: Agreed.

MORTGAGE MARKET IN CANADA

COVERAGE BY LENDING INSTITUTIONS

5,000 Population and Over

Please indicate by an * those of the following centres of population of 5,000 or over in which your company has approved a mortgage loan in 1952, irrespective of the size or whether conventional, N.H.A., residential, commercial, industrial, new or renewal.

Newfoundland

Bell Island

*Corner Brook

*Grand Falls

*St. John's

Prince Edward Island

*Charlottetown

*Summerside

Nova Scotia

*Amherst

*Glace Bay

*Halifax

*New Glasgow

*New Waterford

*North Sydney

*Springhill

*Stellarton

*Sydney

*Sydney Mines

*Truro

*Yarmouth

New Brunswick

*Campbellton

*Chatham

*Edmundston

*Fredericton

*Moncton

*Saint John

Quebec

*Arvida

*Asbestos

Beauharnois

*Buckingham

*Cap de la Madeleine

*Chicoutimi

Coaticook

*Drummondville

*Granby

*Grand'Mere

*Hull

*Iberville

*Joliette

*Jonquiere

*Kenogami

*Lachute

La Tuque

*Magog

*Malartic

*Matane

Megantic

Montmagny

*Montreal

*Noranda

Plessisville

*Quebec

*Rimouski

*Riviere du Loup

*Rouyn

*Ste. Agathe des Monts

*St. Hyacinthe

*St. Jean

*St. Jerome

*St. Joseph d'Alma

*St. Joseph (Drummond)

Ste. Therese (Terre-
bonne)

*Shawinigan Falls

*Shawinigan South

*Sherbrooke

Sorel

*Thetford Mines

*Trois Rivieres

*Val d'Or

Valleyfield

*Victoriaville

Ontario

*Barrie

*Belleville

*Bowmanville

*Brampton

*Brantford

*Brockville

*Chatham

*Cobourg

Collingwood

*Cornwall

*Fort Erie

*Fort Frances

*Fort William

*Galt

*Guelph

*Hamilton

*Hawkesbury

*Ingersoll

*Kenora

*Kingston

*Kitchener

*Leamington

*Lindsay

*London

*Midland

*Newmarket

*Niagara Falls

*North Bay

*Oakville

*Orillia

*Oshawa

*Ottawa

*Owen Sound

*Paris

Parry Sound

*Pembroke

*Perth

*Peterborough

*Port Arthur

*Port Colborne

*Port Hope

*Preston

*Renfrew

*St. Catharines

*St. Thomas

*Sarnia

*Sault Ste. Marie

*Simcoe

*Smiths Falls

*Stratford

*Sudbury

*Thorold

*Tillsonburg

*Timmins

*Toronto

*Trenton

*Wallaceburg

*Waterloo

*Welland

*Whitby

*Windsor

*Woodstock

<i>Manitoba</i>	*Swift Current	*Kelowna
*Brandon	*Weyburn	Kimberley
*Dauphin	*Yorkton	*Nanaimo
*Portage la Prairie	<i>Alberta</i>	*Nelson
*Selkirk	*Calgary	*Penticton
*Winnipeg	*Edmonton	*Port Alberni
<i>Saskatchewan</i>	*Lethbridge	*Prince Rupert
*Moose Jaw	*Medicine Hat	*Trail
*North Battleford	*Red Deer	*Vancouver (including New Westminster)
*Prince Albert	<i>British Columbia</i>	*Vernon
*Regina	*Chilliwack	*Victoria
*Saskatoon	*Kamloops	

Name of Company..... Date.....
 41 Member Companies During 1952

By Mr. Pouliot:

Q. Now, Mr. Bryden, did you make mortgage loans only in cities where the members of your association had branches?—A. No, the branch mortgage offices would cover a complete territory and therefore loans would not be confined to the city in which the branch office was located.

Mr. Low: Mr. Chairman, I do not like to intrude at this moment, but for clarification purposes, was that table that was just filed by Mr. Bryden all-inclusive or was it confined to joint loans?

The CHAIRMAN: The question, Mr. Bryden, was, “is the table all-inclusive or confined to joint loans?”

The WITNESS: That is an all-inclusive statement and is not just confined to joint loans.

By Mr. Pouliot:

Q. Now, Mr. Bryden, in cases like that when your association made loans, was the municipality the “go between” between your association and the mortgagee?—A. No, these loans were made directly by one of the member companies directly with the borrower in that particular area.

Q. In your brief, you mention foreclosure; would it be possible to have a list showing the number of foreclosures in the last 12 months?—A. I have not that information with me. Actually, we have had a rising real estate market now for about 10 or 12 years and foreclosures of property have not been a problem at all. I do not suppose there would be more than a very isolated few instances. I do not have that information.

Q. Are there any outstanding foreclosures now?—A. I haven't that information, Mr. Pouliot.

Q. You have not that information?—A. No.

Q. Well, thank you for the information.

The CHAIRMAN: Mr. McIlraith?

By Mr. McIlraith:

Q. Mr. Bryden, in the second last paragraph on page 3 of your brief you indicate the extent of the assets of the various companies invested in real estate mortgages. Do you anticipate any change in that percentage?—A. In the future?

Q. Yes, in the future?—A. That percentage will change as the sum total of the investment policy that is followed by the different member companies changes. That is, each member company is responsible for its own investment policy and it is going to fluctuate in the future just as it has in the past.

Q. In the light of your experience as head of the Dominion Mortgage and Investment Association, Mr. Bryden, do you anticipate any change in the percentages of investment in real estate by life insurance companies in the next two years?—A. Well again, it is a little difficult to anticipate what 24 life insurance companies are likely to do. I would say this, that I think that the mortgage portfolios of the life insurance companies, percentage-wise, are coming a little bit closer to what might be considered to be a normal diversification of investments.

Q. Have you any comment on this point with respect to loan companies?—A. I think the same thing is true, Mr. McIlraith, but when you talk about loan companies you are already talking about companies that have 73 per cent of their assets in mortgage loans.

Q. I realize that, and I realize the difficulty of forecasting on a question like that, but what I am concerned about is the possibility of the life insurance companies and the loan companies taking advantage of this new legislation to reduce the percentage of their own assets invested in mortgages. Do you care to express an opinion about my fear on that point?—A. I think your fear is not very well grounded, Mr. McIlraith. I think that the life insurance companies and the loan companies are very conscious of the housing need in Canada. I think that is demonstrated by what we have been able to do since the end of the war. We have put a very substantial amount of our money into mortgage investments. Now, that need still exists, and I think you will find that the member companies of this association are anxious to do as much as they can to meet that need.

Q. The bill now before us, with its new provision for insurance of the mortgage risk, will change the nature of that security in any investment portfolio. I realize that it is a little difficult to comment on it before we have any experience with these insured loans, but will a change in the nature of an insured mortgage with insurance as an investment make it more desirable in an investment portfolio or will it make it less desirable?—A. Well, that again is a little difficult to forecast until you have some experience with it. In both cases you are dealing in what are called the higher ratio loans, and the joint loan was one technique, if you will, of meeting that problem. The provisions under the insured mortgage do the same thing, but in a different manner. Now, I would not expect that there would be any significant difference in the attitude of the lending institutions towards insured mortgages, as against their attitude toward joint loans. Actually the joint lending in itself, as you will realize, was a form of insurance.

Q. I realize that, Mr. Bryden. Now, some persons regard the insured mortgage as being in virtually the same class of investment as a government loan, a direct bond. I can see from your brief that you do not so regard it. I do not think there is any substantial difference between us on that point, but would you care to express any view as to whether or not there will be additional funds brought into the mortgage investment field by your members, any of your members who may hold the view I have expressed?—A. Well, once again the claim for insurance is not 100 per cent insurance, as you will realize. The loss that may be suffered in the claim is a part of the risk which will have to be taken by the lender. I think that the insured mortgage provisions, as they stand, are a workable arrangement and that, depending on the final rate of return, these various risks can be allowed for in the companies assessment of the investment.

The CHAIRMAN: Mr. Bryden, I think we ought to take advantage of your presence here today. This is your business and it is not our business. We are in great need of money for mortgage purposes to build houses. Tell us what we are doing wrong and tell us what we should do to get more mortgage funds.

Mr. McILRAITH: It is quite an order, Mr. Chairman.

The CHAIRMAN: Let him think about it and tell us what is wrong. We need the money and we are trying to do it in a certain fashion that we think will bring us the money. If that is not going to bring us the money, let him tell us what we should do.

Mr. CRESTOHL: Don't you think he will be in a better position to do that after he gets our views and he can summarize them?

Mr. TUCKER: I think he should answer the last question of Mr. McIlraith as to whether he thinks there will be any new money brought in as a result of this bill.

Mr. FLEMING: I do not suppose he can answer as far as the banks are concerned.

The CHAIRMAN: As far as the members of his association are concerned.

The WITNESS: As far as members of our association are concerned, I don't suppose there will be any more money brought into the mortgage market than has been brought in over the last few years. We have only so much money and we have, we think, done an extremely good job in meeting the housing need, and certainly there is not in my mind any doubt but what the companies will continue to be conscious of the need.

Mr. McILRAITH: I take it—

The CHAIRMAN: I am sorry. We are not getting an answer. We are not talking about the last six years. The year we are concerned with is 1953; that was the big year; and we anticipate a program in 1954 as large as 1953 if not larger. We need the money this year, and this is the year to which I would like you to direct your question.

By Mr. McIlraith:

Q. If I may continue on the same paragraph, I take it, Mr. Bryden, that the percentages of investments held by the various groups of companies in mortgage portfolios, as indicated in page 3 of your brief, are about as high as they can go. There is no room for a substantial increase in the proportion put into mortgages. Would it be fair to say that?—A. I would say that there is no room for a substantial increase. That does not say that there is no room for some small increase.

Q. Do you happen to know offhand, for instance, what percentage of life insurance investments was in mortgages in, say, 1935, 1925, 1915; do you happen to have any idea of that?—A. I can answer part of that question, Mr. McIlraith. In 1934, 25 per cent of the assets of Canadian life insurance companies were on mortgages; in 1929 that was 32 per cent; by 1944, in the middle of the war period, that had dropped to 12·7 per cent. Since that time it has been increasing to the point where in 1949 it was 18·7 per cent; in 1951, 24·3 per cent; and the figures in 1952 is 29·7 per cent. So there has been a substantial increase in the percentage.

Q. Have you the corresponding figures for loan companies?—A. Yes. In 1934, the loan companies had 74·1 per cent; in 1929, it was 81 per cent; 1944, 51 per cent; 1949, 62 per cent; 1951, 70 per cent; and in 1952, 71 per cent.

Q. And the corresponding figures for trust companies?—A. 1934, 46·4 per cent; 1929, 48·7 per cent; 1944, 27·9 per cent; 1949, 24·1 per cent; 1951, 27·6 per cent; 1952, 26 per cent.

Q. I took it from your brief to be 34 per cent?—A. Excuse me if there is any misunderstanding. I am sorry. The difficulty Mr. McIlraith, is that the figures I have just given are figures for all trust companies. The 34 per cent figure in the brief happens to be for the trust company members of our association. I am sorry.

Q. So the figures you have given throughout were for all companies, and the table just given was for all trust companies?—A. That is right—for all life, loan and trust companies.

Q. And is it for all loan companies?—A. Yes.

Q. And is it for all life insurance companies?—A. All Canadian life insurance companies.

Q. All Canadian life insurance companies; so that may explain any slight discrepancy.—A. That is right, yes.

Q. Now just one point about the amendments to the legislation suggested by you. Were those amendments—which I understand are being produced to the committee—were they drafted after you saw Bill 102 or before?—A. After we had an opportunity of reviewing the bill. The amendments suggested, I think, are all technical ones.

Q. Yes. I wanted to get it clear that they were drafted after, and that they are based on the bill which is now before us. Now, on page 9 of your brief you talk about:

A prerequisite of the plan of insured mortgages is that the loan is to be based on a lending value determined by Central Mortgage and Housing Corporation, and that valuations and inspections are to be made solely by inspectors, valuers and officers of the corporation, even though the funds are the moneys of private investors.

Would not the reason for that be that the corporations are insuring those mortgages?—A. That is right.

Q. It would be necessary for any insurer to inspect the property insured. So that you and your association could not ask that the insurer take your valuation, could you?—A. We would not ask that. I think the association feels that the initial valuation, the amount of the loan, and so on, are things which in the normal course of business would be determined by the lender. Now if you are applying for insurance, certainly the insurer would satisfy himself that the valuations are sound from his insurance point of view.

Q. Yes. I just wanted to clarify it. There was a point in the brief I wasn't quite clear on. Now, just one more question.

On page 9 in the second last paragraph you are speaking about the rate of interest, and you speak about administrative costs. Have you tables indicating administrative costs on these various types of mortgage loans which you would care to give us?—A. We have no tables. That again is something on which each individual company has a different experience. The association does not compile any over-all costs of administration.

Q. We have had several questions about mortgages in outlying areas, such as small villages throughout the country. And I understand that the companies represented by your association have not always been in a position to loan there, for one reason or another. I take it that the administrative costs in such outlying areas, if you did loan there, would be different from the administrative costs in the urban areas? Is that right?—A. That is correct.

Q. And they would be higher, I presume?—A. That is right.

Mr. BALCOM: Wouldn't they be charged to the person who was taking the mortgage at the time? They would not be added to the administrative costs of the company?

The WITNESS: There is continuing administrative cost in any mortgage portfolio.

Mr. McILRAITH: I would like to complete that question.

The CHAIRMAN: Go ahead.

By Mr. McIlraith:

Q. So that higher administrative costs would reasonably lead you to want a higher interest rate, so that your net return would be the same.—A. Yes, that would be reasonable.

Q. So that a case might be argued on that point against making the interest rate too low. We all like low interest rates.

The CHAIRMAN: The next questioner will disagree with you. Mr. Stewart is to follow you.

Mr. McILRAITH: What I am coming to is this: I do not think there is disagreement. But I would say that there may be a possibility that there should not be one fixed interest rate for the whole area of the country. There might be some point to be made of that, but perhaps I should leave it without pursuing it. However, I would like to leave that point with you, that possibly there might be better service rendered.

The CHAIRMAN: Mr. McIlraith, I think we had better leave that point alone.

Mr. McILRAITH: Thank you, Mr. Bryden.

The CHAIRMAN: Now, Mr. Stewart.

By Mr. Stewart:

Q. Mr. Chairman, I would like to pursue some of the lines Mr. McIlraith has been following. Apparently the situation this year is that some 30 per cent of the life insurance portfolios are held in mortgages. Is there any agreement among the life companies as to what would be the appropriate percentage to hold in mortgages? Do you agree that 30 per cent would be well within the safety figure?—A. There is no general agreement at all, Mr. Stewart. And while you use the 30 per cent as an over-all figure, you would find that within the life companies themselves the percentage in mortgage loans would vary quite considerably. There is certainly no over-all agreement on the 30 per cent figure.

Q. It might vary, I take it, from 20 to 30 per cent?—A. You might find some as high as 40 per cent or even higher.

Q. Roughly, what would be the percentage of the total investment in the portfolio with respect to federal and provincial bonds?—A. At the moment federal bonds on the over-all are about 20 to 22 per cent.

Q. And what about public utilities? Would they be about 15 per cent?—A. I could not deal with them separately, Mr. Stewart. But if you take corporation bonds in general, you might find that they run to about 20 per cent to 25 per cent.

Q. They would be industrials?—A. They would include industrials, public utilities, railroads, and so on.

Q. At the bottom of page 1 of your brief you say that you receive money; that the association members receive money on deposit and then sell debentures and savings certificates. Would you give me an idea of the percentage which is paid out on these different forms of investments by the association members? What would be the average paid, for instance, on money which was on deposit?—A. That would probably be of the order of about $2\frac{1}{2}$ per cent per annum today.

Q. And what about debentures?—A. Debentures would run from 4 per cent to, let us say, $4\frac{1}{4}$ per cent per annum under current conditions.

Q. What about savings certificates?—A. They would be about the same.

Q. You mean about 4 per cent to $4\frac{1}{4}$ per cent?—A. Yes.

The CHAIRMAN: Do you mind asking the witness what percentage of the savings of the Canadian people are in these institutions as compared with the savings that are in the chartered banks?

Mr. STEWART: No. I do not mind asking that question at all, if he can answer it.

By the Chairman:

Q. Do you mind answering that question, Mr. Bryden?—A. I do not think the question is capable of answer, as a proportion of the savings of the Canadian people.

Q. As deposited in the chartered banks?—A. Yes. Savings show up in other places too.

Mr. McILRAITH: It is deposits you mean instead of savings.

The CHAIRMAN: I am sorry, yes, deposits.

Mr. FLEMING: Are savings all deposits?

The CHAIRMAN: You cannot answer it, can you?

The WITNESS: No.

By Mr. Stewart:

Q. You say on page 2 of your brief:

There has been great competition for these funds in recent years. Provincial governments, municipalities, and so on.

Can you give the committee an idea of what the companies would be receiving as interest from provincial bonds?—A. The average rate of interest on a portfolio of provincial bonds today is probably between 3.90 and 4.25. That would be the current going rate for that type of security.

Mr. FLEMING: Would Mr. Stewart ask the witness to comment specifically on the shorter term and longer term yields of government bonds?

By Mr. Stewart:

Q. Are there any short term provincial borrowings?—A. Short term government bonds normally have a lower yield. As far as this association is concerned we essentially lend on a long term basis.

Q. What about interest percentage of bonds for municipalities?—A. Municipal bonds today might run from 4.25 through to 5.25, or even higher in some instances.

Q. What about school districts?—A. Every time you must consider the particular quality of the credit, but in the case of school districts you might get anywhere from 5 per cent to 6 per cent.

Q. What about public utilities?—A. Four to 5 per cent would probably zone a public utility bond.

Q. What about industrial enterprises, what sort of return?—A. Not significantly different from public utilities.

Q. Would you agree that an investment at 5½ per cent might be quite attractive.—A. One factor which must be borne in mind is that in a mortgage investment as against a security investment there is great difference in your administration costs. If I might be allowed just to mention our own experience—I cannot speak for the members of the association. I think in our case, our administrative expense has varied over the last four years from roughly one per cent in yield to as low as about 60 cents in yield, and that is about the range. Alternatively, if we are assessing our costs of administration against our holdings of securities our expense ratio would be of the order of 8 cents in yield.

Q. Eight cents out of every dollar?—A. No. Out of the annual income. If a bond were to yield you 4½, you would consider your net return was probably of the order of 4.40%. Whereas, on a mortgage portfolio it has been

our experience that the costs of administration run anywhere from 60 cents in yield right through to one per cent in yield, and we have had both those amounts over the last four years. I cannot speak for all companies. We may be typical.

Q. Will the situation be improved in the arrangement where C.M.H.C. will take on inspections? Surely that must cut the costs?—A. In that arrangement it should prove a little less onerous. I would not anticipate that there would be any very significant difference in a continuing mortgage portfolio over a period.

Q. Take my own situation where I have a mortgage and I give the mortgage company twelve cheques a year and at the end of the month they cash them and enter them up in the ledger. Surely the administration costs would not be as much as 60 cents?—A. That is twelve transactions you have to process in the course of a year on that one mortgage account and there are many other items of administrative cost.

Q. What has been the experience of the members of your association insofar as losses are concerned under N.H.A.?—A. There have been very few losses under N.H.A.

Q. Have you any idea what they amounted to?—A. No.

Q. Have you any reason to believe those losses will increase in the future?—A. That I think would depend on the trend of business, economic conditions and conditions of the real estate market.

Q. We have been told there has been a favourable economic climate in Canada. Some of us disagree of course. On that basis perhaps the losses might increase, but you cannot give us any figure?—A. We have been in a rising real estate market for the last fifteen years, and in that time if you have a rising real estate market you do not encounter very many losses.

Q. And in general you see no possibility of any substantial increase in the percentage of portfolios in mortgages amongst your member companies?—A. Not a great increase.

Mr. STEWART: I have finished, Mr. Chairman.

The CHAIRMAN: Mr. Cameron, would you like to let Mr. Fraser ask a question?

Mr. FRASER (*Peterborough*): Mr. Chairman, most of my questions have been answered. I wanted to ask a question in regard to inspection.

By Mr. Fraser (Peterborough):

Q. In answer to Mr. Stewart, Mr. Bryden mentioned the fact that the inspections by Central Mortgage, I understood, would perhaps lessen the cost to the lending institutions, but would it create more risk on account of the lender not inspecting the property?—A. Would it create more what?

Q. Risk to the lender?—A. I would think, Mr. Chairman, that as far as the lending institutions in our association are concerned, I would suspect they will still have a look at the property to determine the amount of the loan they would like to make even if Central Mortgage is going to make the ultimate valuation.

Q. You would feel that the lender would have to check on the property the same as they do on an individual taking out life insurance. They would have to inspect them to see that they were alright?—A. I would feel we would want to.

Q. For your protection. Do you feel that by Central Mortgage doing the complete inspection that the inspection will be done as well as it has been done in the past where Central Mortgage has done it and the lending institution also? Now, I understand that in the past Central Mortgage in their inspection have really only inspected as regards to the area of the building being put up

and not much else, and that the lending institutions have done the other inspection?—A. Under the joint loans the lending institutions have been responsible for the inspections and the valuations.

Q. Under those inspections have you had very many complaints?—A. Not to my knowledge have there been very many complaints. The company staffs I think are generally competent and experienced. Certainly valuation of anything is a matter of judgment and the human element always comes into these things, but the members of the association I speak for, processed as much as 90 per cent of the joint loans, and there has been quite a volume of joint loans made, and the fact that there have not been too many difficulties arise would lead me to the conclusion that it has not been a bad job.

Q. Well, I would like to ask you this question, do you think that the inspectors of the lending institutions are perhaps more efficient than Central Mortgage inspectors might be insofar as Central Mortgage inspectors are not architects?

The CHAIRMAN: Please, Mr. Fraser, just ask the question.

The WITNESS: Our lending institution inspectors are not architects either.

Mr. FRASER (*Peterborough*): They have had many years of experience.

The CHAIRMAN: Mr. Fraser, are you trying to argue the witness down?

Mr. FRASER (*Peterborough*): No, but they have had many years of experience and they know the business.

The WITNESS: Many of them have and, of course, as is the case on any staff they come and they go. I would not say that all of them have had many years of experience. We try to maintain the most competent staffs we can.

By Mr. Fraser (Peterborough):

Q. I would like to ask this question. One question was asked, I think by Mr. Pouliot, regarding loans in small Canadian communities and you mentioned communities with a population of 5,000 and over. Does your organization lend in communities having a population of less than 5,000? That is, for example, in a village of 2,000 inhabitants or something like that?—A. I would think that sometimes this is done. I believe that it would have to be in reasonable proximity to a loaning area.

Q. And then, if it were close to a lending area, do you think the interest rate would be higher or lower? It would not be lower, surely?—A. It would be the same.

Q. You cannot tell me if many loans have been made in small communities?—A. No.

The CHAIRMAN: He said he could not tell you.

Q. Do lending institutions feel there is a greater risk involved in making loans in the smaller places?—A. No, I think the reaction of the lending institutions to the smaller places is more one of their relationship to their lending territory, rather than a consideration of the risk involved—small versus large.

Q. And the fact that the inspectors would have to go out farther to do their work?—A. Yes.

Q. I think that is all at present, thank you.

The CHAIRMAN: Mr. Cameron?

By Mr. Cameron:

Q. I understood you to say, Mr. Bryden, that you did not anticipate any great increase in mortgage funds being made available by members of your association but there may be some increase?—A. That is right.

Q. Can you give us your reasons for considering that there will not be any marked increase?—A. The main reason, I think, is that the portfolios

of the companies have now regained or been re-constituted at a level which represents the approximate diversification which should be carried in the light of the kind of liabilities which the companies have.

Q. And could you give us the reasons that determine that ratio?—A. That becomes a matter of individual company judgment. Now, in the case of the trust companies or loan companies in particular, they have short term certificates. In the case of a life insurance company, they have not the same immediate requirements but all of those factors are taken into consideration by each company in attempting to formulate its own investment policy.

Q. I wonder if you can help me, Mr. Bryden. I have not been able to get any figures with regard to the ratio of income through general disbursements of the Canadian life insurance companies in Canada. I have the figures for them outside Canada where I find the total disbursements, both on account of policies and annuity contracts and general expenses, amount to some 60 per cent of the total annual income. Now, those are the figures for the outside operations as well as the domestic operations, but I cannot find any comparable figures for the domestic scene. Can you tell me if it would be the same proportion?—A. There are no comparable figures for the domestic scene. What one would have to do, I think, is take the overall total and then isolate the business out of Canada. I do not know what that is, and I do not have those figures available here.

Q. The point I was getting at is this: I notice you state on page 2 of your brief that the funds entrusted to the members of your association must be invested in such a way that they may be returned in due course with interest to policyholders, depositors and holders of debentures and other securities. Now, in view of the fact that in the overall picture the total annual disbursement of the life insurance companies on all accounts amounts to only 60 per cent of their total annual income, how serious is this consideration with regard to the ratio on investments in various fields?—A. I think it is a very serious consideration. You refer to the 60 per cent figure. At the moment, just taking that for granted as being the figure, and I am not sure that it is, that is on a cash basis. Now, the difference between the actual amounts to which you refer must be accounted for and they reappear in our policy reserves which are the amounts we must hold now in order to pay the total of our insurance liability at the point at which it falls due.

Q. You are speaking now of your sinking funds?—A. That is not quite a proper definition.

Q. That is the term used in the inspector of insurance report?—A. Oh.

The CHAIRMAN: I believe you mean the report of the superintendent of insurance?

Mr. CAMERON: Yes, I'm sorry.

The WITNESS: There are some sinking fund policies that are so-called, but the reserves which the companies must hold are the present measure of their future commitments. They are on the liability side of the balance sheet, and they are represented by the assets which are currently held. Now, to some extent, the liabilities may be long-term, but there are requirements for policy loans which may be very short term requirements, and it is a matter of weighing, as far as you can, the term of your liabilities and then attempting to arrive at an investment policy which takes this into consideration.

By Mr. Cameron:

Q. In the light of your report, Mr. Bryden, which on page 3 tells us that the assets of the lending institutions in the six-year period increased by 53 per cent, would you still maintain that the interests of your policy holders

would be seriously endangered by any great change in the ratio of investments?—A. Well, you used the words “seriously endangered.” Once again, you have to come back to the position, I think, that each individual company management is responsible to its policy holders or debenture holders for the safety of the funds that they are managing. Again, it gets into the area of the judgment that those managers have with regard to the proper distribution of the assets in order to accomplish the results. You could not say that if you moved a mortgage ratio two or three percentage points one way or the other that it would represent a great danger to the safety of the funds, but this variation is a constant process. The investment of money takes place every day and you are constantly investing and reinvesting it. One might say it is a sort of “revolving fund” and during the course of its revolving, it changes shape and adapts itself to current needs.

Q. Mr. Bryden, in view of the fact that the policy that was followed for those six years resulted, as I say, in the accrual of assets amounting to 53 per cent of the total at the beginning of the six years, would you not agree that that has been an extremely conservative policy from the point of view of protecting the interests of the policyholders?—A. No, I don't think I would say that. I think it has been conservative, yes; I think that in the handling of these kinds of funds you are not meant to take risks with them and you must pursue a conservative but constructive policy with regard to their use.

Mr. FLEMING: Conservative and progressive?

The WITNESS: Conservative and progressive.

Mr. MCILRAITH: A contradiction of terms!

Mr. CAMERON: Very well, Mr. Bryden, I just wanted to make that point, that your associated members have increased their assets by 60 per cent in the six-year period, and during that same period they have paid dividends to their shareholders.

The CHAIRMAN: Make it a question, Mr. Cameron.

By Mr. Cameron:

Q. I am getting to the question. Do you still feel, Mr. Bryden, that there could be no great alteration in the proportion of investment funds held in mortgages without endangering the interests of your shareholders or your policyholders?—A. The assets have increased, as you indicate, by 53 per cent—I think that is the figure. You have to consider that on the other side, liabilities have increased by approximately the same amount. Now, depending on the make-up of those liabilities depends the make-up of the corresponding assets. That, in the final analysis, depends on the judgment of the individual people responsible in the various companies as to what they feel is a proper proportionate investment of the funds having regard to the liabilities which they have assumed.

Q. One more question, Mr. Bryden. I notice at the top of page 4 you advance—I presume as an argument against any increase in this proportion of investment funds in mortgages—you advance the idea that industry and commerce have capital requirements which must be met if employment opportunities are to be available to enable the house purchasers to pay for their homes. Could you tell us what proportion of the assets of the member companies of your association is in industrial and commercial investments?—A. No, I cannot break that up for you as far as all the members of the association are concerned. I could indicate to you, if you would be interested, the distribution which exists in our own portfolio.

Q. Yes?—A. As at the end of 1952, my company had government bonds of 20·8 per cent; municipal bonds, 8·3 per cent; other bonds—and that would include your industrials, public utilities, and railroads and that kind of thing—

25.2 per cent; preferred stocks, 3.8 per cent; common stocks, 2 per cent; mortgages and sale agreements, which we have included together, 32.9 per cent; real estate, $\frac{1}{2}$ per cent; policy loans, 5 per cent; and other assets, including cash, $1\frac{1}{2}$ per cent.

Q. Would that item of 25.2 per cent on corporation bonds include provincial bonds, Mr. Bryden?—A. The provincial bonds would be up under government bonds.

Q. And the 8.3 per cent is municipal?—A. That is right.

Q. So with your company you cannot tell what proportion of that 25 per cent is in industrial or commercial bonds?—A. I have not that information here.

Mr. CAMERON: I think that is all I have.

The CHAIRMAN: Mr. Applewhaite.

By Mr. Applewhaite:

Q. At the bottom of page 1, Mr. Bryden, you state that of the assets in Canada at the end of 1952 you had \$1,430 million invested in mortgages. At the bottom of page 2, you say that over the six-year period there was \$1,861 million in mortgages. The difference of about \$430 million represents repayments, I take it?—A. It is a mixture between gross approvals and repayments and generally the debits and credits which go on in your mortgage account.

Q. You told somebody that your losses were very light. Have you many payments in default that you have not yet regarded as lost?—A. At the moment I would think that the mortgage accounts of the companies are very clean. In using that word I mean there are a very small number of payments in arrears.

Q. Mr. Bryden, I want to draw your attention to one sentence near the middle of page 2, in which you say that funds tend to flow into those investment areas—I stress the word “areas”—which from time to time seem to afford the best income return within the factors of safety, liquidity and administration costs. Now, with regard to the little communities of a thousand people and under, situated 200, 300 or 500 miles from your nearest investment office, isn't it a fact that the cost of making a loan has made it almost impossible for those people to get home mortgages?—A. It has been extremely difficult from the lending institutions' point of view to expand their loan facilities to cover the type of situation you mention.

Q. Would that be due to two factors: one, the actual cost of making inspections; two, the number of loans in any one area would be so small that the cost could not be divided amongst a large number of them?—A. I think those would be the two main reasons.

Q. If the Central Mortgage and Housing Corporation is going to provide all the appraisal and all the inspections necessary from the point of view of the potential borrower, should not this relieve that situation?—A. Yes, I think it should. Once again the problem is to have your original contact with that kind of a borrower. What does he do? Does he send in an application to our local lending offices, which may be 500 miles away? There is the matter of the original contact that is involved in that.

Q. He discusses it with the first high pressure salesman that discusses life insurance with him—I know because I am one. I would like to ask a few more questions. From the point of view, now, of the lending corporation is there a considerable advantage in a mortgage or other investment which is paid off in one lump sum as against one that is paid off over a long period of years in little amounts through amortization?—A. From a lending institution point of view, if you could have a mortgage paid off in one lump sum, it would be infinitely cheaper to handle. But from the point of view of a satisfactory loan, mortgage loans are normally paid off in instalments, and in that way, with the payments coming in, provision is made to service these continuing instalments.

Q. Can you give me any idea, in the interest rates, what it costs the borrower to amortize over 20 years as against what it would cost him for a flat loan which pays interest during its period of life and is paid off at the end of the year, let us say, in one lump sum?—A. No, I cannot give you those figures right here; but your suggestion of a flat loan for 20 years does not take into account the normal depreciation and obsolescence of the property. It would have to be an extremely low loan in the first instance if it were to stay unchanged for 20 years and still be within the value of the property. Realistically you make the assumption, I think, that payments of mortgage accounts should be made regularly over the period of the loan.

Q. I would not advocate it. I was just trying to arrive at the cost. That is all.

The CHAIRMAN: Gentlemen, you have had a very interesting morning. We shall be back here at 3.30. I have a list of people who have indicated a desire to question the witness. Are there any more? Messrs. Mitchell and Monteith.

The committee is adjourned until 3.30 p.m. today.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I have quite a list of members who wish to ask questions. I am going to have to limit you to five minutes and I will notify you a minute before your time is up. You will have to forgive me if I have to enforce that rule for the first time around. If there is time in the later stages you will have another opportunity to question the witness.

Mr. Crestohl, you are first.

By Mr. Crestohl:

Q. Mr. Chairman, I would like to refer Mr. Bryden to page seven of his brief, because while the informative part is very enlightening, the opinionative part is what is troubling me. On page seven in the first paragraph beginning with the third sentence: "To the extent that the proposal may be difficult in its operation, inadequate in its security and liquidity, or non-competitive in its rate of return, it may fail to attract the funds which parliament hopes will be directed to the financing of new residential construction." That has given me some apprehension. I gather from that and from what you have said that your association is not terribly enthusiastic about this whole program?—A. I do not think, Mr. Chairman, that that is quite a proper inference. When you look at any investment vehicle it must meet three tests, shall we say; security, liquidity, and administrative costs. Now, as far as the proposal insured mortgage loan is concerned, insofar as Canada is concerned, it is a new investment vehicle. The mortgage business is a very intricate business. It is pretty complex; there are a lot of forms and so on; and there is a lot of administration expense involved in it. If the proposals can be streamlined so that the arrangements work as automatically as possible then it should be workable. But, as far as security is concerned, as I have said, there is virtually no case in which there is not a loss involved if we have to depend on the insurance. So, the extent of that average loss, of course, will have to be considered in the making of the investment. And then with regard to liquidity. As far as the life insurance companies are concerned, they are relatively long term investors. Some of the other companies that might be approved lenders under this would have greater liquidity needs than the life insurance companies. And, finally, non-competitive in its return—that really is the key ingredient from the investment point of view. When you are handling money you are always in the position where you are attempting to place the money in investments at a reasonable rate of return. That puts competition between mortgages, bonds, stocks, and

the other area of investment which you can make. The rate of return on any particular investment will improve it in relation to other investments.

I think I said this morning that in this case we felt that a volume of funds would be forthcoming at $5\frac{3}{4}$ per cent. Now, that does not mean that that is the rate. Each individual lender will assess the alternative avenues of investment and their yield in the light of his own requirements, and at varying rates of interest on insured mortgages varying rates or amounts of money will be forthcoming and the more competitive the rate is in comparison with other avenues of investment there, of course, the large volume of money for insured mortgages will be forthcoming.

Q. That is what I gathered from what you told us this morning, but I am troubled by your statement that "it may fail to attract the funds which parliament hopes will be directed to the financing of new residential constructions". Those are very significant words. We are looking for money in order to put the scheme into effect, and just what do you mean when you say it may fail to attract the funds? If it fails to attract the funds, can you tell us what we should do or how we can proceed to attract the funds?—A. We are talking now about the funds which the members of my association have. If, for instance, in the final analysis the paper work in the proposed scheme was excessive it would represent a very large amount of cost. Let us assume that the security was not top flight; let us assume also that once your money was invested it was tied up for twenty or twenty-five years, and let us assume you were to receive a rate of interest of $3\frac{1}{2}$ per cent, I do not think that the insured mortgage loan vehicle would be attractive to investors such as are represented by the Dominion Mortgage. If you put the rate at $4\frac{1}{2}$ per cent it would undoubtedly be a little more attractive, but still I think, in view of the competitive situation, of other bonds and stocks and so on a rate of that kind would fail to attract funds.

Q. Could you tell us then if the rate of interest was satisfactory that there would be an abundance of funds? Is that the turning point?—A. I thought that I had said this morning that it was my view that if the rate of return on insured mortgages was $5\frac{3}{4}$ per cent, having regard to the current pattern of interest rates in Canada, that that would attract a substantial volume of funds into the proposal insured mortgages.

Q. I understand that investments by trust companies are limited by law as to what securities they can acquire. Are there any investments which members of your group make which are not covered by this restriction, that is, that are not considered as trust funds within the meaning of the law?—A. Each of the groups of companies must operate within the statutory requirements which are laid down as to investments. Now, in the case of life insurance companies they differ slightly from trust and loan companies. The only method of going outside those statutory conditions is such as that which has happened in the joint loans under the National Housing Act. They were made specifically eligible for investment.

Q. I did not quite catch Mr. Stewart's question this morning. I think he asked you what was the maximum amount that members of your group earn on an average or what returns they obtain. What is their best return from investments, the gross earnings?—A. As I recollect it, my comment this morning was as to the rate of interest that is available on the market now on alternative forms of investment.

Q. Say 1953.—A. I think that the level of Dominion of Canada bonds is around between 3.60 and 3.70 yield basis. The provincials, I think I said, were of the order of 4 to $4\frac{1}{2}$, the municipals from $4\frac{1}{2}$ to $5\frac{1}{2}$, public utilities and industrial bonds came in that area of 4 to 5, and that conventional mortgage loans in the current market are at 6 or $6\frac{1}{2}$ per cent and in the cases of conventional loans that is a mortgage for not more than 60 per cent of the

lending value. And for a term that is limited to about 5 years normally. Now, that is the pattern of interest rates in this country and it is against those alternative forms of investment that you must try and assess the new proposal for insured mortgages.

Q. Am I to understand, that $5\frac{3}{4}$ per cent is the rate acceptable to the members of your association?—A. Yes, I think so. I think that would draw a volume of funds from the members of our association. That is not to say, however, that there would be no funds forthcoming at other rates. I think that is the rate that would draw the volume of funds, having regard to the present background of interest rates.

Mr. CRESTOHL: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Johnston, five minutes, please.

Mr. JOHNSTON: Mr. Chairman, I have one or two questions which I would like to ask the witness and if I cannot cover them all probably I may come back again at a later time?

The CHAIRMAN: That is right.

By Mr. Johnston:

Q. I notice on page 9 of your brief, Mr. Bryden, that you refer to the cost of inspection. What did you mean by that reference to inspection, and what is the general cost of that inspection to the lending companies?—A. Mr. Johnston, I cannot give you an accurate breakdown of the particular cost of inspection because it is all part and parcel of the whole system of the acquisition of loans and the administration of them afterwards.

Q. But when you referred to that inspection, did you have in mind the operations of your loan company or were you referring to the inspections that the loan company makes on the building?—A. The reference is to the inspection that the loan institutions make themselves with regard to the buildings.

Q. Generally, to what extent is that inspection carried out?—A. The normal number of inspections made by lending institutions, during the course of construction of any particular building, would, I think, be at least four—one at the foundation stage, another at the roof, another at the brown plaster and another at the finish.

Q. What is the purpose of that inspection?—A. The purpose of the inspection is to see that the building is being constructed in a satisfactory manner and, in the case of National Housing Act loans, in accordance with the National Housing Act standards.

Q. Now, just let me get that clear. I am a little bit slow. I am not quite as fast, Mr. Chairman, as some of these lawyers who can get the point very readily.

Mr. FLEMING: Don't be so modest.

By Mr. Johnston:

Q. You say that this inspection was to the point where the building met with your satisfaction; then you made reference to the building standards put out by C.M.H.C. Do you make that inspection to see that the building is being constructed according to those specifications, or merely to your satisfaction to see that your investment is properly covered?—A. In the case of the National Housing Act loans, I think we would attempt to fulfil both purposes.

Q. And you have no idea what extra cost would be incurred in the loan to cover that inspection?—A. That is a rather difficult thing to break down. I do not have those figures here.

Q. Would it be \$35, say on each loan?—A. I could not relate it to that figure at all.

Q. Any building you did inspect did meet the standards as laid down by C.M.H.C., is that right?—A. Within the error of human judgment, and in view of the large number of loans processed over a period, I would say that we did our best to see that all of them adhered to the plans and specifications.

Q. Then there would be no building which you have supervision over, or no project where those buildings failed to meet the standards set by Central Mortgage? I am speaking of the concerns which you represent?—A. Our intention certainly would have been that, but I am not in any position to guarantee that over that period there have not been some errors involved in some place or other. I certainly do not think it is very great. I think the staffs of the company are quite competent.

Q. In case you did find a building where there was a deficiency and that building had not been constructed according to the specifications, what would you do to protect the equity of the owner in that case?—A. We would do nothing to protect the equity of the owner. Our inspection would be as far as the building is concerned and for loaning purposes. We do not place ourselves in any position as between the builder and the borrower or purchaser.

Q. Do you think it is necessary for the lending institutions to have an inspector on that building, and then for Central Mortgage and Housing to have an inspector on that building and then the contractor to have an inspector, and the borrower to have an inspector all for the same purpose, to see that it is built according to standards?—A. Well, I think as far as the lending institutions are concerned, we would certainly like to make sure that the security on which we loan is adequate and the house is well built.

The CHAIRMAN: Mr. Johnston, would you care to pass for a short while?

Mr. JOHNSTON: Yes, but I will come back to it again, Mr. Chairman, if I may, and while I am thinking about it, my next question, which I won't ask now, will be: what precautions were taken in Calgary at the Bow River Construction Company, which was a complete failure?

The CHAIRMAN: You had better put your question now. Mr. Bryden may not have heard of it. I do not know whether he has or not. Will you please ask the question?

Mr. JOHNSTON: May I ask that now then?

The CHAIRMAN: Yes, however, please restate your question because Mr. Bryden did not hear it.

Mr. JOHNSTON: In the case of the project which was carried on in Calgary which was handled by one of your companies, where the contractor went bankrupt, the buildings were certainly not constructed according to the specifications. What precautions did you take to see that this was carried out?

The WITNESS: Mr. Chairman, I have no direct knowledge of the question Mr. Johnston refers to.

The CHAIRMAN: It wasn't his company, I assure you, Mr. Johnston.

Mr. JOHNSTON: He represents all of them—Manufacturers Life and all of them.

Mr. FLEMING: In what sense does he represent them?

The CHAIRMAN: He is the spokesman for them here, but he cannot be asked to give the details of the project of another company.

By Mr. Johnston:

Q. I have already mentioned the name so I will refer to it again. The Manufacturers Life is one of the companies associated with you and is one of the companies which you represent?—A. Yes.

Q. Then, Mr. Chairman, Mr. Bryden is speaking on their behalf?

The CHAIRMAN: They are not here today.

Mr. JOHNSTON: May I ask if some of these people will be here?

The CHAIRMAN: It was not planned to have any of them here. I thought the whole matter had been thoroughly dealt with on the floor of the House by you and by the minister some time ago.

Mr. JOHNSTON: It comes right to the question which Mr. Mansur and I were discussing, and about which he was somewhat concerned himself: what precautions are the life insurance companies taking to see that the moneys which are assumed by the borrower are properly safe-guarded?

The CHAIRMAN: You can answer that question, Mr. Bryden. It is a general question and it is applicable.

The WITNESS: The precautions that are taken, Mr. Chairman, are these: we have staffs, and local loaning offices. The building is valued in the first instance and if it is a progress loan then our inspectors examine that building, I think at least four times. They look to see to the compliance, and the final advance made, and the mortgage is in existence. As I say, I think that the staffs of the lending companies, by and large, are competent individuals. Certainly you would not rule out the chance of error, because after all you are depending on individuals to do this for you. I think that, having regard to the number of loans which have been processed by the lending institutions under the Dominion Housing Act and the successive National Housing Acts, the cases where something has gone wrong are a pretty small proportion of the total.

The CHAIRMAN: Stop here for a minute. You will have to save the next question, please, Mr. Johnston. Mr. Philpott.

By Mr. Philpott:

Q. I am going to change the subject slightly, Mr. Bryden. I take it from this brief, in two places, that your association is, shall we say, slightly nervous or not enthusiastic about certain features of this bill. On page 4, and page 8 especially, you refer to technical difficulties in foreclosing, or the slowness in foreclosing. I would like to find out what is your lack of enthusiasm, taking the experience of your association in the 1930's. Was your reluctance to foreclose due to financial considerations or sentimental considerations? Did you suffer financial loss or just loss of public goodwill, or what?—A. Oh, no. During the depression certainly we suffered financial loss in a very considerable number of cases. Alternatively, the one thing that the lending institutions do not want is to take over title to any property. After all, basically we are lending money and all we want is the return of that money with the agreed rate of interest. One never likes to foreclose. Occasionally in the interests of your policyholders or of your depositors that step has to be taken.

Q. What happens when you do foreclose? Do you hold the properties or sell them as quickly as you can?—A. That would vary as between lenders. There were times in the thirties, as you know, when you could not give properties away; during that time they were held pending a market, when people were once more interested in acquiring houses.

Q. Factually, would you say that when your association foreclosed in the depression you lost the actual money out of pocket?—A. Yes. The companies did lose.

Q. For instance, I buy a house, say, in Victoria, B.C., in the spring of 1937 at \$4,025, and I sell it last year at \$11,500. Would not the same experience apply to your association?—A. In respect to that, I think we are talking about two different periods, Mr. Philpott. From roughly 1935 or 1936 to date there has been a continued up-trend in the real estate market. For the period 1929 to 1934 the situation was exactly the reverse.

Q. Then your main concern is that you do not want to get into the business of being a landlord with a lot of administration?—A. For preference, yes.

Q. Then I see nothing in your brief as to what would happen in regard to the rental provisions of the new housing Act. Is your association interested in that at all?—A. So far, I do not think that any of the member companies have gone into the ownership of rental properties. I think there have probably been two factors involved. Since we were allowed that privilege, the demand for the funds that we have has been so large, and where you have an existing organization you tend to place the great bulk of it in mortgages. Another point that concerns us, I think, is that with a constantly rising real estate market, such as we have had, one would want to examine relatively closely the advisability of moving into an ownership position on that type of rental property. The third point, I think, is one that has been discussed among some of us from time to time; that is that that sort of a job is one that a group of companies such as our could do during a slack period.

Q. Just one final question on that point. Can you give any comparative figures as to what your member companies do with rental purchases in Canada and the United States? Is my information correct that your member companies are much more in the rental real estate business in the United States than they are in Canada?—A. Not our member companies, no. We have one American company, and I believe that they have some rental properties in the United States. I think that, as far as the participation by United States life insurance companies in the United States in rental property is concerned, there are some outstanding examples of some things that have been done.

Mr. PHILPOTT: Thank you very much.

The CHAIRMAN: Mr. Tucker.

By Mr. Tucker:

Q. Mr. Bryden, I understood your answer this morning to be that there was only so much money to go around, and therefore you could not look forward to much of an increase in the amount of money that your member companies would put into housing as a result of this legislation. I understood you to say that, and I also understood you to indicate that you would not put in enough new money to make up for the 25 per cent that heretofore the government was putting in. In other words, the impression I got from what you said this morning was that as a result of this legislation there will be less money so far as the people you represent are concerned, less money available for housing than there was heretofore. Did I get the right impression or not?—A. I don't think you did. The reference this morning to the discontinuance of the one-quarter share was a reference to the number of houses that could be assisted. I think I said that up until now, for every \$75 of company money we were enabled with government participation of \$25 to make a \$100 loan available. Without that you arrive at the position where it requires \$100 of our money for the \$100 loan. Consequently from the amount of money that we have available less units can be assisted.

Q. I am not sure now—I wrote it down here that you said that you would not expect much more money to become available as a result of this legislation from your member companies.—A. That is right.

Q. If as a result of this legislation the government is not going into partnership with you in some of these fields to the extent of \$25, what I was asking you is, would it seem to you that as a result of this legislation your

member companies are not going to put in much more money, if the government is not going to go along with you and put up \$25 against your \$75? Then it seems to me that, so far as you people are concerned, there would be less money available for housing. Am I wrong in that?—A. No. I still think we are missing the point here. We could have the same amount of money available but yet, if it is all our money, there will be fewer starts that we can assist, fewer actual housing units that we can finance.

Q. That is just what I am saying. If you do not put up more money and as a result of this legislation the government does not put up \$25 against your \$75, then less money will go into housing so far as you people are concerned.

The WITNESS: Not less money. That money will finance fewer houses.

By Mr. Tucker:

Q. We rejected that up to now. But just for argument's sake, let us say you have put in \$100 million and the government, in the works which you have gone into, has put up part of that; I mean some money against that. Let us say they have put up \$25 million. Now then, from now on the government will not be putting up this 25 per cent. Are you going to be able to increase the money you have put into housing to make up for the fact that the government is not going to put up 25 per cent?—A. I would not think that we could.

Q. That is what I was getting at.—A. But that does not mean we are putting less money into houses.

Q. I did not say that. I said that as a result of this legislation less money will be forthcoming.

The CHAIRMAN: From your associates.

By Mr. Tucker:

Q. So far as your operations are concerned. In other words, you won't be in partnership with the government and you won't be putting up as much more as the government will not be putting up, as I understand it. It is a matter of argument, I suppose. But without question, I understand there will be very little new money forthcoming as a result of this legislation.

The CHAIRMAN: From what source?

By Mr. Tucker:

Q. I am only dealing with the companies he is speaking about.—A. Possibly I can give you an illustration. Again I would have to go back to our own position, if I might.

Normally we would determine the amount of money that we would place in mortgages in the ensuing year in this way, first of all we would take our institutional portfolio, make a calculation as to the amount of cash repayments that might be expected. In our case that might well be between \$5 million and \$6 million on, roughly, a \$60 million portfolio. Then you forecast your growth in assets in the next year. In our case that might be as much as, let us say, \$12 million or \$13 million. Then you try to anticipate where you would like to be in your own particular mortgage account at the end of the next year. In our case we would probably want to see between 50 and 60 per cent of our new money growth in assets put into mortgages.

If you take the \$5½ million which you expect to be repaid, and take \$6½ million or \$7 million which is that proportion of the increase in assets, you then have about \$12 million to \$12½ million available for loaning on mortgage account in the next year. Does that answer your question, Mr. Tucker?

Q. No. I understand you to say this morning that you did not think that as a result of this legislation your member companies would be willing to put a much greater proportion of their available money for investment into housing. I understand you to say that this morning. Now, is that correct? Have your assets increased? I realize that you can put the same percentage into housing and that there will be some increase in money available. But I understand you to say this morning that this legislation was not of such a nature to induce your member companies into putting a greater proportion of the moneys they have available into housing.—A. I think that is the statement, but I do not think that you could pin it on this new legislation, because I think the same situation would have existed if there had not been any change from the joint loan basis.

Mr. CRESTOHL: Mr. Chairman, I think it says that quite clearly in the statement on page 7, speaking about the present bill. I read as follows:

The present bill which is under consideration proposes a new system of insurance for higher ratio loans. The insured mortgage loan is an investment vehicle new to Canada. To the extent that the proposal may be difficult in its operation, inadequate in its security and liquidity, or non-competitive in its rate of return, it may fail to attract the funds which parliament hopes will be directed to the financing of new residential construction.

There it is, quite clear.

The CHAIRMAN: Please proceed, Mr. Tucker.

By Mr. Tucker:

Q. Now, Mr. Bryden, we all remember being faced with exactly the same situation in 1939. Mortgage companies then were getting around $6\frac{1}{2}$ per cent and they said that they had no money available to put out in regard to mortgages on urban houses. The question was whether new money could be made available for this purpose. Now then, at that time a bill was brought down with which I presume you are familiar, giving the mortgage companies and other companies the right to re-discount their debentures secured by their existing mortgages with the Central Mortgage bank at $3\frac{1}{2}$ per cent. And it was provided that they could borrow money up to the amount of their existing credit from the Central Mortgage bank provided they reloaned that money at not more than 2 per cent above the $3\frac{1}{2}$ per cent.

The men who were going to get that money were going to get it at $5\frac{1}{2}$ per cent. The going rate was $6\frac{1}{2}$ per cent and in fact it was going to double the amount of money available from the mortgage companies and trust companies and so on. Now then, as I remember it at that time, there was some reluctance on the part of the financial institutions to agree to that legislation because of another feature of it which meant the writing down of existing mortgages. But so far as re-financing was concerned, we were assured at that time that this would afford plenty of new money to take care of the situation and at a rate of interest 1 per cent under the going rate, by use of the Central Mortgage bank which was really a subsidiary of the Bank of Canada.

Now then, in that way there was really a provision made, as I understand it, giving your companies the same right of discount as the banks have under the Bank of Canada Act.

At that time they indicated that they could borrow under that plan and extend plenty of new money, and it would be new money. I mean it was not going to interfere with people dealing with insurance companies; it was not going to interfere in any way with your other business; and it gave you the right, let us say, if you had \$50 million to invest, to go to the Central Mortgage bank and get from them their debentures for the \$50 million at $3\frac{1}{2}$ per cent.

What I want to ask you is this: have you given consideration to that legislation, and is the attitude today, of the people you represent now, in fact that you do not think that legislation would do what we were told by the financial experts in 1939 that it would do?—A. I have no information about the time that you are talking about, Mr. Tucker, or as to what was said at that time. I do not think I can speak for all the members of the association on that particular point. But I would say according to my thinking—and it can be wrong—that the re-discount privilege which was proposed at that time would normally be considered to be sort of an emergency provision. I know as far as the life companies are concerned that I wouldn't think that they would have any occasion to re-discount their existing investments.

Q. I remember that was stated in the committee the other day, so I have brought along with me the actual statute. And there is no doubt that they were included; and there was no suggestion at that time that this was not permanent legislation, because the Finance Minister at that time, as well as Dr. Clark and everybody concerned, laid this down as a hope that there would be plenty of new money available to existing institutions so that they could lower the rates of interest that were then prevailing.

The CHAIRMAN: The witness says that he does not know anything about that matter, is not aware of the details and is not qualified to speak on that particular matter. You will have an opportunity, to ask that same question on Thursday morning of a man who knows more about the Act than any other person we will have before the committee.

Mr. TUCKER: I would like to ask if some institution did not co-operate with this plan. That was in respect to 1939. I see that Mr. Mansur is shaking his head. But I have the *Hansard* where Mr. Dunning said they would. There is no question that they were all ready to co-operate at that time.

The CHAIRMAN: The witness was not occupying his present position, in which capacity he speaks.

Mr. TUCKER: Yes, but he represents the same people.

The CHAIRMAN: But the witness was not in quite such an important position then as he now holds.

Mr. TUCKER: But he represents all these financial interests.

The CHAIRMAN: Today.

Mr. TUCKER: Yes, and he says that as a result of this legislation we are not going to get very much new money. So I ask him if he thinks that this plan would operate as a means of providing more new money, because we need more new money in houses.

The CHAIRMAN: All right, just leave it at that, please.

The WITNESS: That plan has not been considered by us.

The CHAIRMAN: That is the answer.

Mr. TUCKER: It must have been considered in 1939. Has everybody left the scene since then?

The CHAIRMAN: This is 1954.

Mr. TUCKER: The plan then was going to provide more money at less interest. I am wondering if those people could figure out it would work, are we to be told we cannot do it today?

The CHAIRMAN: This witness said he did not know.

Mr. TUCKER: This witness says that on behalf of the people for whom he speaks there will be very little money available because the rate of interest they can get today is around 6 per cent. He is wondering if much money will be attracted at the rate envisaged which is under 6 per cent. That was the argument prevailing then, that the prevailing rate was 6 per cent, and they

were persuaded by these re-discount provisions to go in the scheme and the most they could charge was $5\frac{1}{2}$ per cent. What I want to know is if these same companies that were in business then are in business today. I can look up and find out who gave evidence at that time before the banking and commerce committee. Presumably that man is still available.

The CHAIRMAN: When, in 1939?

Mr. TUCKER: At the time the banking and commerce committee was looking into this provision for providing more money.

The CHAIRMAN: I am informed it was Mr. D'Arcy Leonard who gave evidence at that time. He is at present with the Canada Permanent in Toronto. Mr. Bryden says that the matter has not since been considered to his knowledge.

By Mr. Henderson:

Q. We have a chart showing that the owners of the new houses themselves supply 59 per cent, private mortgage lenders and lending institutions and credit unions and individuals supply 28 per cent. Now, the governments have been supplying 13 per cent in the main. From your experience where are we going to get this 13 per cent?—A. It seems to me that the only source is to try to get more savings. If you have to carry on and produce a volume of houses, it must be financed I presume. There are only certain sources of money available. To the extent that they are not adequate, I suspect some other method or avenue will have to be found.

Q. Then, the terms should be attractive enough to get those savings into operation?—A. I think it is a case of more than mere attractiveness of the terms. The lending institutions that I represent have traditionally been a very large source of house financing in this country, probably the largest. To the extent that the policy is to build more houses as time goes on it certainly begins to appear as if the proportion of the savings of the country today that we happen to have are not adequate to do the job even with the best will on our part.

Q. You talk about the lenders' position in your brief and on page eight refer to the moratoria legislation. Will you explain what risk you think is involved in that?—A. Under moratoria legislation the presumption is that you are stopped from foreclosing a property. Now, the way this insurance claim works there is a very important time element involved. The longer the time is stretched out the greater is the loss involved. That is why provincial moratorium can be a very distinct hazard.

By Mr. Mitchell:

Q. Mr. Chairman, there is one question I want to ask in regard to what has been said about the interest, and if we accept the rate as being $5\frac{3}{4}$ per cent that represents a rise so far as the borrower is concerned of $\frac{1}{2}$ of one per cent. Am I correct? Can the witness tell us in the light of his previous experience with a rise in the interest rate what the buyer reaction is to such a rise, and secondly, can he confirm that if there is such a rise there will be people presently in a position to borrow who will not then be in a position to borrow due to the income requirements?—A. Mr. Chairman, I find it very difficult to put myself in the position of giving a borrower's reaction. If the rate were set at $5\frac{3}{4}$ per cent it would represent an increase of one half of one per cent over the rate which the borrower is now paying. It does not represent an increase of one half of one per cent to the lending institution. As you know the operation of the present joint loan is that the government's share comes forward at $3\frac{3}{4}$ per cent. That gives the lending institution $5\frac{3}{4}$, out of which it pays the administration costs. As far as the lending

institutions are concerned they must be governed by the particular interest rates that exist from time to time. I just do not feel that any of the companies have any mandate from any of their policy holders or depositors to accept a lower rate of interest than the going rate from time to time. The subsidy which was involved in the joint loans through the government's participation will now be out of the picture.

The CHAIRMAN: When you say you have no mandate to accept a rate lower than the going rate, you accepted $5\frac{3}{4}$ when the going rate was 6 and $6\frac{1}{2}$ during 1953.

The WITNESS: We have to define the going rate there, Mr. Chairman. The going rate for conventional loans has been six to $6\frac{1}{2}$ per cent; the going rate on the joint loans was $5\frac{3}{4}$ per cent. Now, within the joint loan there was a partial guarantee which made it a better loaning proposition than the conventional loan at 6 or $6\frac{1}{2}$ per cent. So you will have to define the going rate.

The CHAIRMAN: You will have to define this mortgage. Under this Act, this mortgage will be in a class by itself. It will not be a conventional loan or a joint loan. You will have to give it a new status, will you not?

The WITNESS: Yes.

The CHAIRMAN: Mr. Mitchell?

By Mr. Mitchell:

Q. The point we are interested in is building houses not only on a long term basis but in 1954, and the first question I am asking is whether or not from your experience with previous increases, that will result in sufficient buyer resistance so that we will not in fact build more houses?—A. I would not think that would be a factor of too great moment, but frankly I could not tell you what it will do.

Q. Do you think it will reduce the number of persons who will find the provisions of the Act available to them, because it will increase automatically with the income requirements of the individual and the increase of the monthly payments of principal, interest and taxes?—A. It would have that effect on the ratio.

Q. The second question has to do with the ratio of company lending on conventional loans and on Housing Act loans. You have said that there is a shortage of money in your mortgage portfolio, to deal with all the requirements. Is there a tendency on the part of your companies to favour conventional loans in larger amounts because of lack of red tape and lack of administration costs?—A. I do not think there is a tendency to favour them. I think the number of loans that we have under the National Housing Act ought to answer that.

The CHAIRMAN: Mr. Monteith?

By Mr. Monteith:

Q. I think my question has quite a bit to do with the latter part of Mr. Mitchell's question. There is one thing on the bottom of page 3 of Mr. Bryden's brief where it is stated that member life insurance companies hold mortgages on Canadian properties to the extent of various percentages of their assets in Canada. Do these companies hold any percentage of their assets of any consequence outside of Canada?—A. That varies very considerably, Mr. Monteith. Some of the life insurance companies do a very considerable amount of business outside of Canada.

Q. Are they interested in mortgages outside of Canada?—A. Yes, I would say the majority of them are interested. My information is that their mortgage account outside of Canada proportionately is not nearly as great as it is inside Canada, in relation to the outside assets and the inside assets.

Q. What percentage of the total mortgage loans in Canada would be conventional loans?—A. I do not have that information, I'm sorry.

Q. This legislation will not have any effect of increasing the conventional loans to the detriment of getting money for housing under C.M.H.C.?—A. I would not think so.

Q. I think that is all.

The CHAIRMAN: Mr. Quelch?

By Mr. Quelch:

Q. Mr. Bryden, I gather from what you said this morning and this afternoon that you do not regard loans under this Act at $5\frac{1}{2}$ per cent or under as over attractive, in spite of the fact that the rate of interest on conventional loans stands at 6 to $6\frac{1}{2}$ per cent, is that correct?—A. As I hear you, yes.

Q. So, it is likely that the future action of members of your association, regarding the expansion or contraction of loans under this Act, will depend very largely upon the current rate of interest for conventional loans?—A. Yes, as it exists from time to time.

Q. If the Bank of Canada, as an instrument of government policy or an instrument of parliament, decided to take action that would have the result of bringing down interest rates in this country but not the corresponding rate of interest for the Housing Act, would the Housing Act then become more attractive to you?—A. If the action of the Bank of Canada were such that the general level of interest rates fell and the insured mortgage rate stayed level, it would certainly be more attractive.

Q. What would be the effect of bringing the chartered banks into the field, so far as your organization is concerned? Will there be any likelihood of members of your organization borrowing funds from the chartered banks, or are you only interested in loaning your own funds?—A. We are interested only in loaning our own funds.

Q. Do you consider that the shortage of funds will to any extent be made up by the chartered banks under this Act?—A. I have no answer to that question.

Mr. ADAMSON: Mr. Chairman, could I speak?

The CHAIRMAN: I believe you wanted to ask a question, Mr. Balcom?

Mr. BALCOM: My question has been answered, thank you.

The CHAIRMAN: Mr. Adamson?

By Mr. Adamson:

Q. Mr. Bryden, on the bottom of page 3 of your brief you say, "For example, housing finance is not confined to the bare lot and house. It involves the financing of roads, sewers, water mains, light and power, schools, shopping facilities, etc., etc., which has become necessary or desirable in community living as we know it in Canada."

Now this, and another quotation which I shall refer to in a minute, brings out the question of serviced land. In a house today, as I understand it, before the first spade is put in there is about \$2,000 spent for an ordinary lot in the suburbs of Toronto, or anywhere, which has to come out in serviced land. At the present time, that cost is borne through bonds, or through other things, by the owner of the house. Now, I want to know whether the American system whereby bonds for the building of these municipal services are issued

free of federal taxation would have any attraction for you in Canada? This system apparently works in the United States and money can be borrowed at 2 or 2½ per cent as against 4½ per cent, at the present time, and presumably—

The CHAIRMAN: Please let him answer the question. Don't build it up. He has the question now.

The Witness:

Mr. Chairman, tax free bonds in this country would be a new departure.

Mr. HELLYER: Quite a surprise, too.

The WITNESS: What influence it would have on the life insurance companies for example, I do not know. I would think that if the bonds such as you mentioned were tax free, that the rate of interest which they would return would be such that institutional investors such as ours would not feel it profitable to buy them. Reverting to the United States, I think you would find that most of those tax-free municipal bonds probably found their way into individual hands rather than institutional hands.

Q. But the benefit of the lower interest is passed on to the real estate owner?—A. If that were the case, he would pay less, I presume.

Q. Now then, at the bottom of page 8 of Mr. Bryden's brief it is stated: "Where the repayment period is of such long duration that repayments fail to keep pace in the early years with physical depreciation and obsolescence."

Now, it appears to me that one of the major problems in the thirties was that the value of houses depreciated far faster than the mortgage repayment. Do you anticipate that danger arising again?—A. That is the sort of thing that can always happen, Mr. Adamson. On a 20-year amortization plan, the principal amount of the mortgage that is repaid within the first five years is 15½ per cent. If you move to a 25-year amortization period, the amount of principal paid in the first five years is 10½ per cent, and of course if you move farther than that, the amount gets progressively smaller.

Q. What do you rate as your period, your annual depreciation rate in a house, say, built this year in one of the suburbs of Ontario, a \$10,000 to \$15,000 house? What is your annual rate for the first five years, say?—A. I do not know that you can give a pat answer to that. It seems to me that you would have to see the house, to see its location, and try to arrive at some opinion as to what depreciation is likely to take place.

Q. I was asking that because of the very large housing developments which are taking place. That question must have been considered by the people who do the financing. I wondered if you had any answer.—A. A lot would depend on who the occupant was.

Mr. HELLYER: It might not be depreciation.

By Mr. Gagnon:

Q. I would like to know how many members of your association made loans in the province of Quebec during last year.—A. That I cannot answer. I do not know how many in number. I would think that the province of Quebec, though, is pretty well covered with loaning offices and a large number of them.

Q. You don't know how many loans have been made?—A. No, I do not know how many loans were made in the province of Quebec.

Q. Is Sun Life a member of your association?—A. Yes.

Q. On page 5 of your brief you mention that for the six years ending with 1952 the mortgage loan approvals of member companies in the financing of 372.8 thousand new and existing housing units. Now, can you tell me how many of these loans have been made in each province?—A. No, we have not that information broken down by provinces.

The CHAIRMAN: I have exhausted the present list, now the chairman wants a few minutes.

By the Chairman:

Q. Mr. Bryden, can you tell me how many Canadian companies operate under the F.H.A. in the United States?—A. I don't know how many in number.

Q. Would you say half a dozen?—A. I would think half a dozen would be about the number.

Q. Would you say that the technique under F.H.A. in the United States is about the same as that envisaged under Bill 102?—A. I would think that the technique under the F.H.A. in the States is very similar.

Q. In so far as the guarantee is concerned, Mr. Bryden, would you say that the guarantee under Bill 102 is as good as or better than the guarantee under F.H.A.?—A. Mr. Chairman, I cannot answer that. I am not as familiar with F.H.A. loaning as possibly I should be. We do not happen to have done any ourselves.

Q. Do you know what the maximum rate of interest is under F.H.A.? Suppose I told you it was $4\frac{1}{2}$ per cent?—A. If you told me, I don't think I could argue.

Q. I am going to ask you another question. Based on long term government bonds, would that correspond to a $5\frac{1}{4}$ per cent rate in Canada?—A. I find a little difficulty in pulling the answer to that question out of the air. The $4\frac{1}{2}$ per cent to which you refer also has a one-half per cent premium, I think, added to it, and I believe that in the market at the moment they would be selling at a discount. That is something that does not happen in Canada. The loan is normally made at the stated rate. Under the F.H.A., as I understand it, a loan is a parcel and you are able to buy it, depending on the state of the market, at either a discount or a premium.

Q. Can you relate the two rates for us? For instance, assuming the $4\frac{1}{2}$ per cent rate is the American rate, and we talk about a comparable rate in this country, what would be the comparable rate?—A. If everything were equal between the two, I would think that $5\frac{1}{4}$ would probably be about the comparable rate, providing everything were equal.

Mr. FLEMING: Including taxes?

The CHAIRMAN: Well, now, assuming everything is comparable, that leads me to the next question: If $5\frac{1}{4}$ is the Canadian equivalent of $4\frac{1}{2}$, why do you plump for $5\frac{3}{4}$?

The WITNESS: Because I don't think that you can say that the $4\frac{1}{2}$ is the going rate. It is the nominal rate of interest on the loan, to which is added one-half per cent premium, and at the moment those F.H.A. mortgages, some of them, are sold at a discount, so that really moves you to a rate of five per cent effective, plus whatever the discount might bring.

By Mr. Low:

Q. It might be very useful to know what the conventional rate on loans is in the United States. That is not the conventional rate.—A. We are currently lending in Detroit, for instance, on a conventional loan basis at $5\frac{1}{4}$, $5\frac{1}{2}$ and $5\frac{3}{4}$.

Q. That is compared to 6 or $6\frac{1}{2}$ in Canada.—A. The spread seems to exist.

Mr. FRASER (Peterborough): In American money?

The WITNESS: American money.

By the Chairman:

Q. The Canadian companies operating under F.H.A. do not make their inspections or appraisals in the United States?—A. No, that is done by the mortgage broker that originates the loan.

Q. It is not made by the mortgage company?—A. No. In some cases it may be, but the pattern generally is that they do not.

Q. The pattern generally is the same pattern as is envisaged under Bill 102?—A. Generally, yes.

Q. So that those Canadian companies operating in the United States are not complaining about that aspect of it, or if they are it is not doing them any good?—A. I guess that is right.

Q. Have you read the proceedings of this committee; have you read Mr. Mansur's statement that was presented at the original meeting?

Mr. FLEMING: Excuse me. They are not all printed yet.

By the Chairman:

Q. The original statement?—A. I have read the first four.

Q. That is all there are yet. Do you agree or disagree with the views stated by Mr. Mansur in his preliminary statement with respect to the prospect of mortgage funds from your organization?—A. Mr. Chairman, I was tempted this morning when I came to say that Mr. Mansur had placed our position before the committee.

Q. I am very glad. He was very fair in his statement, and, the committee so felt. May I ask you another question? Do you know any country in the world, with the exception of Canada, where the people's deposits are not available as mortgage funds?—A. Well, that is a difficult question when you relate it in as large an area as you do. In the United States they have a whole system of savings and loan associations which find no counterpart in Canada. They also have savings banks which are not quite the same as our chartered banks. And in the United States most of these institutions—I guess all of them—can and do invest in mortgages.

Q. What about Great Britain?—A. In Great Britain there is a large number of building societies which also participate in the financing of houses.

Q. But you will agree, Mr. Bryden, that up to the present time the depositor's money in the chartered banks, has not been available for mortgage purposes?—A. That is right.

Q. You cannot think of any other country where the same rule applied?—A. I cannot think of any.

Mr. ADAMSON: Surely in the United Kingdom; I do not know the laws of banking in the United Kingdom, but surely if you have money on deposit in one of the big five banks in the United Kingdom, can it not be taken and loaned on mortgages?

The WITNESS: I do not know the answer.

Mr. ADAMSON: I do not think it could. I think their system is similar to ours in that regard. I think the bank on the Abbey Road is the biggest in the world.

The WITNESS: I would prefer that you questioned somebody else on the details of their banking legislation.

By the Chairman:

Q. Now let me ask you this: you said that government bonds brought a return of 3·6. Is that not what you said?—A. 3·60 to 3·70 at the moment.

Q. Whatever it is, be it 3·60 or 3·70, assuming that the mortgage we have in mind will bring you 5½ per cent; now, compare those two for us, as to yield?—A. Yield to us at the moment? Government bonds would be let us say, 3·65; our own administration costs on those you do not especially take government bonds, you take your bond portfolio would probably be a rate of 3·50 net. Then you consider your own assumed rate of 5½ per cent. On the insured

mortgages, this morning, I gave some indication of our own costs. I said that over the last 5 years they seem to have varied from .65 in yield to about 1 per cent in yield. Let us assume it is 75 per cent. That would give a net rate of $4\frac{3}{4}$.

Now when you speak of Dominion Government bonds, you are talking about one of the securities that has about the highest liquidity in the country, one of the top credits. When you speak about insured mortgages, their credit does not compare—in the sense that if you have to foreclose there is a loss involved of some portion of your claim. It is not as liquid as the straight Dominion bond, and that would about sum it up.

Now at the moment, Mr. Chairman, I find it a little difficult to relate it to the question. You have to treat the comparison almost in a vacuum. At the moment I think most of the lending institutions are net sellers of government bonds. That is being done in the process of reconstituting our portfolios. I do not think that you would find, under today's market, that many of the companies were buying Dominion of Canada bonds. Pardon me, I should say Canadian bonds.

Mr. ADAMSON: It is still a pretty good word.

By the Chairman:

Q. Can you give us some comparison? What about provincial bonds.—A. Well, provincial bonds at the moment would be, let us say, between 4 and $4\frac{1}{2}$ per cent. Deduct 10 cents which makes it a net 3.90 or 4.15. The majority in term than the proposed insured mortgages, and I think that would relate of provincial bonds are perfectly good credits. Most of them would be shorter than to the 4.75 net yield on the insured mortgage that you assume.

Q. You are not giving full consideration to a government insured mortgage?—A. Oh, I think that you have included that to start with in your assumption of $5\frac{1}{2}$ per cent. If there were 100 per cent insurance, it would be different again. Actually, it is not.

Q. Well, let us say 98 per cent. A. Not 98%—It varies as to the time in which you can make your claim effective.

Q. Doesn't that same thing apply to the conventional loan?—A. Yes, but in the conventional loan you have a much larger equity. If you start off with a 60 per cent loan, then the owner has a 40 per cent equity. And if you start off with a higher ratio loan, then the borrower's equity is correspondingly reduced.

The CHAIRMAN: I have Messrs. Macdonell, Johnston, Cameron and Cannon. Now, Mr. Macdonell.

By Mr. Macdonell:

Q. Mr. Bryden, the chairman asked you if your understanding was that they followed your pattern more or less and the practice under the F.H.A., and I think you said yes. I am anxious to know exactly what that pattern is. I have heard it said that individual guaranteed mortgages in the United States circulate quite freely on their own, so to speak, and I want to ask you whether particularly, having regard to what one might call the catch in the insurance which you outlined at some length on page 8, and I would like to relate it to that at the moment. I would like to ask you, first of all, whether I am right in my understanding that these guaranteed mortgages do circulate freely in the United States. And secondly, I ask you whether that pattern will be exactly followed here

You just referred the committee to some of the points that you mentioned on page 8 where you said:

"The claim for insurance is relative in point of time . . ." and you also referred to the difficulty that there might be in connection with enforcement, and as to the security, and you referred to the retarding action on the borrower or subsequent encumbrancers, as well as to the possibility of moratoria, and you spoke about the discount of 2 per cent as well as the cost of acquisition of title which would make you the loser with a formidable loss on what we might call the catch of the guarantee.

There is one other think I want to ask. Actually, if an approved lender has a considerable investment in these mortgages and wishes to sell, can he just toss his mortgages around in the same way as he can government bonds, or is there not a calculation to be made as between him and purchasers as between the amount of payments that have been made and which represent principal and interest and charges respectively? That is a rather complicated question, but I think you see what is in my mind. I am anxious to know to what extent these have circulated in the United States, and whether they can circulate as freely here?—A. Well, my understanding of the F.H.A. in the United States is that they circulate freely in the sense that they are put together in the first instance by what might be termed a mortgage banker and then they are bought by institutions. I am not sure to what extent they may be bought by individuals. The servicing arrangement there usually remains, as I understand it, with the mortgage holder. Now, as far as the Canadian situation is concerned, I think that time will be required before a market of that kind might develop in Canada. I do not know whether it will or not. Loans in Canada under this proposed legislation will be made by the approved lender and they can be sold so long as the approved lender continues to do the servicing. Now, what may eventually come out of that arrangement I just do not know.

Mr. HELLYER: It is as long as an approved lender does the servicing?

The WITNESS: Yes. You could transfer these loans within that group of approved lenders with the new approved lender taking over the servicing.

By Mr. Johnston:

Q. One of my questions has been asked and answered. The answer was quite well given, and I understood the answer to be that the amount of money which the loan companies would be prepared to put into this new housing project would depend upon the return to the companies, and I think the answer in part was if the interest rate was higher it would be more attractive to the loan companies and they would act accordingly.

My next question is: how much loss have the mortgage companies incurred under the present legislation?—A. Very little in total amounts. I believe Mr. Mansur could give that answer.

Q. I am just speaking from the mortgage companies' point of view. Did they lose any money under the one-quarter guarantee.—A. There has been some loss.

Q. Have you no idea what the amount is?—A. It has been very small.

The CHAIRMAN: Mr. Mansur says \$191,000 in the operation to date. I think he said it was due to some builders who failed.

Mr. JOHNSTON: Was that the loss incurred by both mortgage companies and Central Mortgage and Housing Corporation?

The CHAIRMAN: Lending institution loss was reimbursed in full by Central Mortgage. I am not going to give any more evidence. That is what they told me.

Mr. JOHNSTON: The mortgage companies did not lose any then?

The CHAIRMAN: That is the answer.

Mr. JOHNSTON: They did not lose any?

The CHAIRMAN: They went into a deal with a guarantee.

Mr. JOHNSTON: That is exactly what I want to know. Under the present situation of the one-quarter guarantee the mortgage companies did not lose, and if there was a loss Central Mortgage and Housing made it up?

The WITNESS: The volume of joint loans under the National Housing Act has not yet run its course. Many of them will have another twenty or twenty-five years to go. Now, to say at this juncture that there have been no losses really does not tell the whole story. Under the joint loan technique there is this guarantee pool as you know. That guarantee pool has been built up based upon the number of loans that various lending institutions have made. It continues and losses can be taken from it so long as there is an amount in that pool. Now, you really cannot answer the question, I do not think, as to whether there will ultimately be any losses at this point.

By Mr. Johnston:

Q. My question was not based on what the ultimate losses would be. It was what have the losses been?—A. At the moment under the joint loan technique any losses which have occurred have been reimbursed from this guarantee pool as I understand it.

Q. Is it the policy of the company which you represent that Bill 102, lacking the guarantee, is not quite as attractive to the lending institutions as it was before?—No. I would not think you could say that. Essentially we are doing the same thing. We are making higher ratio loans available for residential construction. We have been trying one method by which that can be accomplished and that is the joint loan technique. Now for various reasons we are changing the method of making these higher ratio loans available. We do not know the complete plan, but it seems to me that the new insured mortgages are quite a workable arrangement. I do not anticipate that as between the two that there will be very much difference.

Q. But you would rather have had the old situation than the one proposed under Bill 102?—A. That depends.

By Mr. Cameron:

Q. You said in your opinion the insurance companies have no mandate from their policy holders to accept a lower rate of interest than the going rate. Now, did you mean to imply by that that the consideration of the insurance companies was that they had to have the interest of their policy holders in mind and that their investments must be made in the light of that?—A. That is the essential ingredient. Everytime we sell a policy there is an assumed rate of interest in the calculation. Our policy holders who pay us premiums must expect, I think, that we will meet our obligations, and that assumes that the money they leave with us will earn at least the stipulated rate of interest. Now, in doing that we have a large volume of assets which we think are put to constructive use in the country during that period of time that we hold them pending their return to the policy holder in the payment of a claim or his matured policy value or his retirement income.

Q. Do you mean, Mr. Bryden, that the funds that you accept from your policy holders are then invested so as to protect their interest? Is that it? That is the basis of it?—A. That is right.

Q. Then, will you explain to me in the report of your company, of which you are the general manager, where they got the funds in 1951 to pay the disbursements set forth in the report you gave the government which amounted to \$8,269,000 in regard to contracts, and \$7,110,000 in regard to all other costs, or total disbursements of \$15,380,000? Now, I ask you where

you received the money to pay that off because your total net interest dividend and rent income amounted to only just over \$5½ million?—A. What about the premium income?

Q. That is a point I am coming to. You say that you paid that out of the premium income. You paid two-thirds of your obligations out of the premium income?—A. Well, and why not? I presume we paid a few death claims too.

Q. Just a minute, I want to point this out, Mr. Bryden. The implication of that is you do not regard your premium income as increments to capital or reflecting increments to liabilities? You regard it as income into which you dip to pay your obligations, is that not correct?—A. You dip into that premium income in order to pay the obligations you have assumed and for which they pay you premiums. You also have an investment income from your assets which you have to use in addition, to pay your expenses of operation. You simply cannot run a company for nothing, so on the income side you have premiums on the one hand and interest on the assets you are holding. On the other side, you pay your claims and then you set aside so much in reserve for future claims. You pay your operating expenses and your taxes and then your participating dividends. It must be considered as a whole.

Q. But will you agree, Mr. Bryden, that your income from your investments is a minor factor in protecting the interests of your policyholders and that they have only provided one-third of the funds required to meet your obligations?—A. It is a smaller factor in one sense, but it is an important factor in the sense that if you earn no interest on the assets which you hold, the premium rates that you would have to charge would be very considerably higher.

Q. Let us examine that, Mr. Bryden. You have investments of about \$130 million, according to your report, or \$129 million odd. Interest on one per cent of that is \$1,300,000. Your premium income is about \$19¼ million. After having dipped into it to pay off two-thirds of your obligation in 1951, you still had \$9½ million—in fact you had more than that as you indicated yourself a while ago, that with other income it amounts to about \$12 million. Why would you have to increase your premium rate substantially to reduce the interest rate on your investments by 1 per cent or 2 per cent or even 3 per cent? You still have a very sizeable surplus from the public's savings?—A. I think you used the figure of 1 per cent of our assets being about 1.2 million. I think if you will look you will find that is about the equivalent of participating dividends we paid that year. A one per cent reduction in the earnings of our assets would wipe out the entire payment of participating dividends to participating policy holders.

Q. It would wipe out what you paid, but not the \$9½ million excess which you had?—A. But we are going to have to meet a considerable number of claims in the future part of which must be provided each year.

Q. But are you not going to have any income next year?—A. Oh yes.

Q. And will you not be pursuing the same policy?—A. But there will come a time when we could not rely on the current income to meet all the claims that come up. That is why we have to accumulate a reserve.

Q. Mr. Bryden, will you agree that the rate of interest on the investments of life insurance companies are a minor factor in the protection of your policyholders' interests? I mean, minor to this extent—that they can provide only one-third of the funds required to meet all your obligations, is that correct?—A. No.

Mr. FLEMING: The witness shook his head, but what did he mean?

The CHAIRMAN: He said no. Mr. Bryden has proved that it is a very profitable business—he does not deny it.

Mr. FRASER (*Peterborough*): Profitable for the policyholders, yes.

The CHAIRMAN: Mr. Cannon?

By Mr. Cannon:

Q. One of the significant facts submitted to this committee is that the percentage of the assets of the lending institutions invested in mortgages has reached such a point that is not likely they will be willing or able to invest much more of their assets in mortgages. You mention on page 3 of your brief, that the life insurance companies have 29.8 per cent of their Canadian assets in mortgages, loan companies have 73 per cent and the trust companies have 34 per cent. Now, you compared that to the figures at the end of 1946 which were 14.7 per cent, 50.8 per cent and 23 per cent, according to your brief. I notice that on page 4 you say that during the war years member companies used the bulk of the moneys coming into their hands to help finance Canada's war effort, and therefore they considerably increased their investments in government bonds. Would it not be a fairer comparison to compare 1952 with 1939, because in 1946 you were not in a normal situation, and if you produced the 1939 figures, I think they might be of interest to the committee.—A. I believe some reference was made to this this morning. As far as the Canadian life insurance companies are concerned the ratio of mortgages to assets in 1939 was 18½ per cent.

The CHAIRMAN: Mr. Cannon, those figures are on the record for the loan, trust and life insurance companies. Mr. Bryden produced them all this morning. Do you want to make immediate use of them?

Mr. CANNON: No, not if they are on the record.

The CHAIRMAN: Do you have another question Mr. Cannon?

Mr. CANNON: Yes. I want to question him on the statement he makes on page 7 of the document he read this morning. It is stated at the bottom of page 7 "The insured mortgage proposed calls for larger loans, longer terms, and generally longer amortization periods. Not only will the equity of the borrower be less, but the time factor will be longer. The mortgages contemplated by the legislation involve real and substantial additional risks to the lender." But in view of the fact that 98 per cent of the capital is guaranteed by the government, and in view of the fact that interest is guaranteed for 6 months at the regular rate and for 12 further months at the regular rate less 2 per cent, I just cannot understand a statement like that and I would ask Mr. Bryden to explain it. I cannot see that any real, substantial or additional risk is involved.

The WITNESS: Mr. Cannon, I think the first reference to the mortgages contemplated by the legislation involving real and substantial additional risks to the lender, is placed in comparison to the previous part of that paragraph where we are talking about the normal conventional loans of 60 per cent of the appraised value. Now, as far as the use of the word "insured" is concerned, the proposal as you know, does not represent 100 per cent insurance. You cannot calculate a particular amount of loss because the loss involved in the insurance will vary with time. There may be a case where you have a loan under \$6,000 for which you obtained a quit claim and your allowance for transfer cost would be enough to offset the 2 per cent loss. There, I think, is the case where there would be no loss, but as you move out in time you get credit for 6 months at the contract rate and then up to an additional 12 months at the contract rate less 2.

If you go beyond that—18 months—then, there is nothing in the insurance which covers you. Certainly in our experience there are quite often situations

where, if you start to foreclose, you may not get the possession of the security in 12 months, or even 18 months, and in some jurisdictions it could be longer than that, so that the loss extends as time passes.

By Mr. Cannon:

Q. Will you allow one more question? Under the conventional loans you are comparing with, what is your ratio of loss?—A. I have no information on that at all, and certainly no recent information.

The CHAIRMAN: Mr. Stewart?

By Mr. Stewart:

Q. Mr. Chairman, could Mr. Bryden tell us if his company, or if any of his associate companies, set up any reserves against loss on these mortgages?—A. Which mortgages, conventional mortgages?

Q. Any mortgages.—A. No, not on a joint loan. We have felt that the guaranteed pool has in effect done that.

Q. Have you any reserve for possible loss? You have mortgages in your portfolio now at 5½ per cent guaranteed against loss. Have you any other assets which are quite so delectable?A. Quite so. Delectable?

Mr. FLEMING: What was the last word?

The CHAIRMAN: Delectable. He means gold-plated.

The WITNESS: Yes, I think probably we have.

By Mr. Stewart:

Q. Perhaps you might let me into the secret afterwards. There is another question I would like to ask. The witness was asked some time ago, if a reduction in general interest rates took place and there was no increase in these mortgage rates, would it mean an increase in lending. The answer, I think, was "Yes", is that right?—A. Would you mind repeating that?

Q. If the general interest rate were to fall but the interest rate under these mortgages were not to fall, the investment would become more attractive and, therefore, you would lend more money?—A. Within certain limits.

Q. It would mean your portfolio of assets would not be quite so liquid?—A. That is right.

Q. Then does liquidity depend upon an attractive rate of interest, or, to put it into plainer words, what the board of directors thinks is in the interest of the company as a whole?—A. I think there are a lot of factors that have to come into a decision of that kind. I think there is a minimum amount of Canada bonds, for instance, that we ought to hold against certain liabilities. It is a matter of judgment, and the make-up of the liability side on your balance sheet. When you say "The general market rate went down", my assumption would be that the mortgage rate would probably go down, too. In other words, there is a pattern of interest rates which moves pretty well together as the whole fluctuates up and down.

Q. Liquidity does depend to an extent on the attractiveness of the rate of interest?—A. That is one of the factors that you consider when you think in terms of the rate of interest.

Q. And the lender, not being happy about the current rate of interest, has decided therefore to have more liquid assets; would that be a fair assumption?—A. No, I do not think that that is a fair statement. I think it follows from what you said—

The CHAIRMAN: No. Mr. Low.

By Mr. Low:

Q. My first question, Mr. Chairman, is this: On page 5 of your brief, Mr. Bryden, you said:

The number of units whose financing was thus assisted has not kept pace with the dollar amount of loan approvals. The lag is due to the combination of larger loans and of higher costs for housing and some trend toward increased accommodation per unit.

I wonder if Mr. Bryden would give us some idea of just what he had in mind when he spoke of higher costs for housing, and then perhaps he could take this question at the same time: Was there an increase in costs for housing between the years 1952 and 1953, and if so what were the contributing causes?—A. Well, Mr. Low, I will have to answer this in rather general terms because I do not have detailed figures in front of me. It seems to me that it is evident that over the last several years there has been a very decided upward trend in the cost of housing. As far as the last year or so is concerned, it would seem to me that the cost of housing has levelled out quite significantly.

Q. Was there an increase between the year 1952 and the year 1953?—A. I would think probably not, if you are dealing with similar houses. I would think that the costs had levelled out.

Q. Pretty well levelled out?—A. I think so.

Q. Has there been any significant downward trend in the cost of materials, like lumber, plumbing, and that sort of thing?—A. I don't think there has been, at least that has been translated into any change in the cost of a house.

The CHAIRMAN: Mr. Low, there is evidence in the record on that point.

By Mr. Low:

Q. I was interested in getting Mr. Bryden's point of view about it. He did mention certain higher costs as being among the contributing factors to the lag that he spoke of, and I wanted to get his opinion on this because I am very much concerned about costs, and the way Mr. Bryden turned his last phrase was significant. He said that there was no change that one could say had been translated into lower costs of houses. I think perhaps that that says a lot. There is another question.

Mr. Cannon asked a question that cut across it, but I am referring to the statement made by Mr. Bryden on page 9 of his brief. He said:

Much of the success of insured mortgages will depend on the net rate of return to the lender after allowance for the considerable costs of mortgage operation and provision for losses inherent even under the insured mortgage provisions.

I have not been quite satisfied with the information I have got concerning what losses are inherent in the insured mortgage provisions. Just what are they?—A. I think there is a loss inherent every time you take any risk by investing money, unless you want to put it into 90-day treasury bills. Now, risks vary; they vary as to term; they vary as to credit.

Q. But couldn't that be said about any mortgage whether it is insured or not?—A. Yes.

Q. What is peculiar to an insured mortgage that would not be, let us say, to a fully guaranteed, a government-guaranteed loan?—A. The whole loss under this proposed insured mortgage legislation is not taken care of the way it would be under a straight government guarantee.

Q. For your opinion, have you drawn on reports of experiences in the United States with insured loans?—A. No.

Q. How can we tell what losses are inherent—that means bred right in them—inherent in insured loans, if we have not had much experience with

them?—A. To my thinking, there is loss inherent every time you invest money. What the actual loss is, time alone will tell.

Q. It would certainly be refreshing to me to have some fairly specific statement of what you expect those losses to be. It may be that you have misgivings that in the years ahead won't be fulfilled.—A. Well, I have no information which would be specific about the loss that you might expect. An investor over a long period certainly expects losses. Over a long period they are met. They have to be met out of the interest income which is received if the principal of the money is to remain intact for the purposes that it has been invested.

Q. The only reason I asked the question was that Mr. Bryden said this morning—this suspicion just popped into my mind—that maybe there was something about insured mortgages which Mr. Mansur had not told us. I just wanted to find out what he really meant by "inherent" in specific terms?—A. I think you are defining "inherent" a little more particularly than I meant it.

Q. Maybe it should not have been in there in the first place.

The CHAIRMAN: Now, Mr. Macnaughton.

By Mr. Macnaughton:

Q. My question, Mr. Chairman, was in fact asked by Mr. Cannon, but it was raised by Mr. Low again, and it refers to the charges set out on page 7. Real, substantial, and additional risks I presume mean all that you have stated on pages 7, 8, and 9; and if I understand it, the potential risk is two per cent plus the time lapse if certain things happen; and if they do not happen, then there is no risk, outside of the inherent risk.—A. That is putting it a little more simply than it is. There is that 2 per cent penalty, if you will, or the co-insurance, if you will, on the principal, and the first 6 months of interest. The amount of interest in the 12 months following is also cut from the contract rate by 2.

Now that is where your time element becomes so important. In addition, as far as legal charges are concerned in connection with foreclosure proceedings, it is certainly our judgment that the \$125, which is offered will be considerably less than the average cost which will probably be incurred occur. I cannot be anymore specific than that.

The CHAIRMAN: I am going to close. Well, Mr. Tucker? This will be the last.

By Mr. Tucker:

Q. On page 4, Mr. Chairman, I would like to be sure of what Mr. Bryden meant. I thought when he gave evidence I knew what he meant, but I have some doubt now. He says on page 4, in the second last paragraph:

We are unable to hazard a guess as to what might be the amount of money available from member companies for investment in mortgages of all types or in mortgages for housing purposes over the next several years. We can indicate, however, that the pace of mortgage loan investment set in the last four years, and particularly in 1953, cannot be expected to continue indefinitely.

Are we to take it from that that you are going to loan as much in the future as you did in 1953?—A. Does not the next paragraph almost answer that question, Mr. Tucker? It says:

It seems probable that the volume of funds of member companies seeking investment in the mortgage field will become something of the order of the reinvestment of mortgage payments plus the portion of

its net increase in assets which each company considers to be desirable in its own case to give effect to its own liquidity and diversification requirements.

Q. I cannot understand it. Up until now you have been increasing the proportion of your portfolio in mortgages?—A. That is right.

Q. And part of the loan in 1953, or part of that increase in the proportion of your portfolio?—A. That is right.

Q. Now you do not expect to increase that proportion. I take it that you will be loaning less in the future than you have in the past?—A. I think the reference is that it cannot be expected to keep up the pace at which it increased over the preceding years. For instance, in 1947 the life company ratio was 12·7, but coming to the end of 1952 it was 29·7 and at the end of 1953 I suggest it is over 30 per cent. We cannot hope to keep up that rate of increase. That does not say that there won't be a further increase. But that will be a decision which will have to be made by each individual company in the light of its own circumstances.

Q. I understood you to say that you felt your companies have pretty well reached the position where they could not increase the proportion of investment in mortgages, that is, the proportion which it bears to other investments, very much more. I understood Mr. Mansur to say that.—A. I think that is so.

Q. I take it from that, that we cannot look for the same amount to be invested from now on?

The CHAIRMAN: I think he said that, and he gave the increase in percentage.

The WITNESS: You have a growing portfolio, and you can still invest more money but still not keep up the pace or rate of recent years.

By Mr. Tucker:

Q. I take it you expect to go on lending from now on about the same amount as you have been in the last 4 years. In other words, the increase in your funds will just about offset the proportions that you have already put into mortgages in respect of your increase in assets, which have just about offset your increase, relatively.—A. I think you are going a little bit too fast for me on that, Mr. Tucker.

The CHAIRMAN: And for me, too.

By Mr. Tucker:

Q. Up until now you have increased your proportion of assets in mortgage loans; but from now on you will not increase that proportion of your assets, and the only increase will come from the increase in your total assets?—A. That will be part of it, and I think you will find that the proportion itself will increase gradually, but it will not keep up the pace of the increase which has gone on over the last 5 or 6 years.

Q. If you put 73 per cent of your money into new urban mortgages, or if you put very much more than that into urban mortgages, there will not be much left for loans to the farmers.—A. As far as the loan companies to which you are referring are concerned, that would be for all mortgages, both urban and farm.

Q. It will be?—A. It will be; not just specifically urban mortgages.

Q. But I understood that 73 per cent of those mortgages were for housing purposes?

The CHAIRMAN: Oh no.

The WITNESS: No.

By Mr. Tucker:

Q. How much of that is for urban, then. I thought we were still dealing with urban mortgages for housing purposes?—A. I do not know.

Q. You say you do not know what proportion that is. Then these figures do not mean very much to us. I do not know what the proportion is for farms, and the proportion for housing. If we do not know what proportion is devoted to housing, whether it is one-half, three-quarters, or two-thirds, then the figures do not mean very much.—A. No. As to what the situation is I could not give you the exact breakdown. The farm proportion of those loans, I would think, would be relatively small today.

Q. It would be very useful for this committee to have some idea as to what the figures are. They are relative to this enquiry.—A. We have no means of getting that kind of breakdown, Mr. Tucker. And as far as lending institutions are concerned, I felt that these figures were to the point, as far as this enquiry was concerned. After all, this represents the money or the funds that we have and can devote to mortgage loans including housing in Canada.

Q. What proportion of the funds loaned by the insurance companies would be for rural mortgages, and what proportion would be applicable to this enquiry, speaking approximately?—A. Last year, the distribution for farm loans ran about \$6 million out of \$490 million.

Q. You say \$6 million out of \$490 million; that is for the life insurance companies?—A. That includes the entire membership.

Q. Oh, I see. What was that again?—A. \$6 million out of \$490 million.

Q. If you increase the proportion invested in mortgages, would you say it is likely to go on in that proportion?—A. I would not have the faintest idea.

Q. There is just one other question. You said there is no protection against moratoria either provincial or dominion. I should think that 98 per cent is a protection that most of your companies would have liked to have back in the days around 1930. They surely must have lost more than 2 per cent at that time.—A. In case of debt adjustment legislation we would never have the property to make any claim on.

Q. That is the point. You said in your brief that this was no protection against moratoria. But you can make a claim against the Federal Government. That is protection against moratoria. Your suggestion is that this guarantee is no protection against moratoria? Is it your suggestion that when the federal government gives you a guarantee of 98 per cent that it would not let you realize that?—A. The reference is not to a federal moratorium.

Q. You used the word.—A. I referred to federal or provincial debt adjustment, which is not moratorium.

Q. Is it suggested that the Dominion, having undertaken to give you that guarantee, would in any way try to avoid it by debt adjustment and if they did would they not honor it at 98 per cent?—A. I would hope it would so honour it.

The CHAIRMAN: Gentlemen, on your behalf I want to thank Mr. Bryden for being informative, helpful and patient, and at the same time to thank the committee for being considerate.

Canada - Banking and Commerce,
Standing Committee on, 1954.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

BILL 102

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

WEDNESDAY, FEBRUARY 17, 1954

WITNESSES:

Mr. R. S. Staples, President, The National Co-operative Union of Canada;
Rev. F. A. Marrocco, Director, Social Action Department, Canadian Catholic Conference;
Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 17, 1954.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Arsenault, Ashbourne, Balcom, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cardin, Crestohl, Fleming, Coldwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hellyer, Henderson, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaught, McIlraith, Mitchell (*London*), Monteith, Quelch, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver.

Having disposed of two Private Bills, in respect of which no verbatim evidence was taken, the Committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

In attendance: Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation; Mr. R. S. Staples, President, The National Co-operative Union of Canada; Rev. A. Toupin, O.M.I., Director, *Le Conseil Canadien de la Coopération*; Rev. F. A. Marrocco, Director, Social Action Department, Canadian Catholic Conference; Mr. Leo Berubé, General Secretary, *Le Conseil Canadien de la Coopération*, representing *La Fédération Des Coopératives d'Habitation du Québec*; and Mr. Breen Melvin, National Secretary, The National Co-operative Union of Canada.

Mr. Staples called, presented a brief on the Bill under consideration and was questioned thereon.

During the course of the examination of Mr. Staples, Rev. Marrocco was called and questioned.

Mr. Mansur was recalled to answer a question on the position of Co-operative Housing Associations applying for assistance under Section 16 of the present Act.

At 5.35 o'clock p.m., the examination of Mr. Staples and Rev. Marrocco having been completed, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, February 18, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 17, 1954

3.30 p.m.

The CHAIRMAN: Gentlemen, our first witness this afternoon will be Mr. R. S. Staples, who is the President of the National Co-operative Union of Canada. We will follow the usual practice of questioning Mr. Staples when he has completed the reading of the brief. Sit down please, Mr. Staples.

Mr. STAPLES: Is it all right if I stand, Mr. Chairman?

The CHAIRMAN: If you like.

The WITNESS: Mr. Chairman and gentlemen, I should like first of all to introduce the other members of my delegation. First of all, the gentlemen on my far right is Rev. A. Toupin. Father Toupin is Ontario's elected representative on the board of the Le Conseil Canadien de la Cooperation. Rev. F. A. Marrocco, is the director of the Social Action Department of the Canadian Catholic Conference, and Mr. Breen Melvin is the national secretary of the Co-operative Union of Canada.

We also expected Mr. Leo Berube, general secretary Le Conseil Canadien de la Cooperation, representing La Federation des Co-operatives d'Habitation du Quebec, whose plane has been delayed. He will probably arrive shortly.

Mr. FLEMING: I might say, by way of introducing Mr. Staples, that he is the president of the Co-operative Union of Canada.

The WITNESS: Thank you, Mr. Fleming.

The Co-operative Union of Canada is a federation of co-operative unions of which there is one in every province except Quebec. In the membership of these provincial co-operative unions are found most of the co-operatives and credit unions in English-speaking Canada.

Le Conseil Canadien de la Cooperation is the companion organization representing the French-speaking sector of the co-operative movement.

The size and complexity of the co-operative movement can best be comprehended from a study of the reports of the Canada Department of Agriculture which I have before me. They are "Co-operation in Canada, 1952," and "Credit Unions in Canada, 1952." The 3,335 credit unions in Canada have 1¼ million members and assets totalling \$424 million. The 2,616 co-operatives reporting have over 1½ million members and assets totalling \$496 million. The co-operatives showed a business volume for 1952 of \$1.2 billion and the credit unions made loans to members in the total of \$125 million.

It is not our intention to take the time of this committee to elaborate upon the need for housing in Canada. The Honourable R. H. Winters in his introduction of Bill 102 on the occasion of its second reading in the House of Commons and members in House and committee representing the various points of view have clearly described Canada's housing problem and the methods being proposed to deal with it. It is our desire to hold repetition to a minimum.

There is however one point we wish to emphasize—the need for housing is not distributed evenly through all income groups. Obviously it is those in the lower income groups who have the most difficulty finding proper housing. A man with an income of say \$100 per week can find housing without too much difficulty—housing which is comfortable and adequate, even luxurious judged by previous standards of habitation.

The sponsors of Bill 102 believe that the mortgage insurance features of the Bill will tend to remove one of the major obstacles in the way of increased housing construction, but an increased supply of mortgage capital can assist only those families having sufficient income to make the necessary down payment and to maintain the required level of monthly payments. Herein lies a real problem. An example often used in discussion of the bill is that of a house having a lending value of \$10,000. The mortgage under the terms of the bill is \$8,772 (90 per cent of \$8,000 plus 70 per cent of \$2,000, plus insurance premiums of \$172.)

The buyer then must find an unspecified amount as cash payment representing the difference between the mortgage (less the insurance premium) and the builder's price to him. If the price of the house in our example is \$11,000 the down payment is \$2,400.

More serious still is the size of the monthly payment required to take care of the carrying charges. At the present rate of interest—5½ per cent—these charges total \$73.95 monthly (interest and principal \$52.45, taxes (estimated) \$20.00, fire insurance (estimated) \$1.50). It is considered that the monthly payment should not be higher than 23 per cent of the buyer's income. If these estimates are a reasonably accurate indication of the average situation, it will be necessary for the buyer not only to find the down payment of \$2,400, but also to have an income of not less than \$3,860 annually, or \$74.25 weekly. Even average wages in Canada are much below this figure.

From the standpoint of the public welfare the whole problem is greatly intensified because it is in the lower income groups that the lack of housing has its most serious effect. Typically the family of low income has not had the same opportunities to gain education or culture as the family of high income. The low income family finds it more difficult to lift itself above a bad housing situation or to offset its ill effects. It is unnecessary to repeat statistics such as those concerning the incidence of juvenile delinquency, crime or disease to prove this point. If families of low income could have adequate and decent housing it would help greatly in the solution of these huge problems, but overcrowding, unsanitary conditions and the impossibility of living in cleanliness and dignity take a terrible toll.

Areas of poor, inadequate or squalid housing, those areas in which the low-income groups tend to congregate, are the potential trouble spots in our Western civilization. In Canada they are cancers on the body public. Unless they are eradicated by heroic and effective measures, they will eventually endanger our standards of morality and democracy. The breeding ground of crime and disease, the fountain of ignorance and misinformation, their unfortunate inhabitants can easily be led in undemocratic directions by false leaders, and how could it be otherwise? Men and women will not accept forever a hopeless situation.

So serious is this situation in terms of the health and vigour and morale of Canada's people that no housing program can fully measure its success in terms other than the extent to which it has helped families of low income to solve their housing problem. Our calculations indicate that the National Housing Act, 1954, will not be an outstanding success in this regard.

It is our firm contention, Mr. Chairman, that co-operative methods applied on a wide scale could make a very significant contribution to the solution of the housing problem especially for families of low income. In order to establish our point clearly, perhaps we should outline briefly the method of operation of a typical co-operative housing group.

The typical co-operative housing project is incorporated under appropriate provincial legislation to construct houses for its members, with all the incidental powers necessary to that end. In such a group there will be from 12 to 30

members or more, and these members will have spent many months in study of all the factors—social, legal, technical and financial—having a bearing on the solution to their problem. In the course of this study, they will have become a well integrated and cohesive group. Morale will be high, courage will be strong, their wives and families will be enthusiastic, and why not! For the first time in their lives they see the distinct possibility of having a dwelling of their own.

The group will be carefully organized. The project will be carefully planned. Selection of materials and equipment will have been given much consideration. Expert supervision on the job will have been provided and skilled labour engaged. Each member of the group will have undertaken to contribute his own labour whenever possible in lieu of a part of the cash payment to the extent of 1,000 hours or so.

We quite realize that there are very low income groups in Canada whose housing needs cannot be met through co-operative effort. In these groups are the families with incomes so low that under no circumstances, not even with good organization and favourable financing, can they buy or rent adequate living accommodation. Such situations are beyond the scope of this brief, for it appears to us that assistance in the form of some sort of subsidy is necessary. Traditionally the co-operative movement in Canada prefers to stand on its own feet without special help. One of the main objectives of co-operatives and credit unions is to place people in a position where they have a good chance to help themselves, developing their capability and self-reliance in the process. We feel that subsidized housing is necessary for some unfortunate people but let us not confuse that method with co-operative housing.

Co-operative principles applied to housing, even under the terms of Bill 102 in its present form can go a long way in solving the housing problem for low income groups. Replying in the House to criticism of the bill, the Hon. Mr. Winters stated that under the Act houses were being built for families with incomes as low as \$2,600 annually.⁽¹⁾ We think perhaps he had co-operatives in mind, for as a matter of fact there are in Ontario and Quebec co-operative groups,⁽²⁾ including families with incomes as low as \$2,450, at the building stage under the National Housing Act.

We view with dismay suggestions that the interest rate will be higher than the 5½ per cent which presently applies. Using again the \$10,000 lending value as an example, every ¼ of 1 per cent increase in the interest rate requires about \$66 additional annual income. A rate of 5¾ per cent would mean that the number of potential members in co-op housing groups would be noticeably reduced.

It would be difficult to place too much emphasis on the potential value of co-operative housing. Here is a group of men, married and with families, living under conditions very far from ideal, with incomes which would never permit the purchase of a good home in the ordinary course of events. These men can get good homes. They become happy and self-reliant, strong in their new-found confidence.

Now we hope it is clear that what seemed the impossible has been accomplished entirely through the intelligence, courage and initiative and industry of the people themselves in the co-operative groups. No special help has been provided, no subsidy has been needed. Through co-operative development the people are meeting their housing needs by their own efforts. We are asking for no provision which is not already contemplated in Bill 102.

⁽¹⁾ *Hansard*, p. 1575.

⁽²⁾ We refer particularly to the Marrocco Homebuilding Co-operative, now building 34 homes at Deschenes, Quebec. This site is six miles from the parliament buildings. We would be pleased to arrange for any members of the committee to visit the project.

Much larger numbers of very low income families could potentially use co-operative methods to build houses if Bill 102 were amended to permit co-operative housing projects undertaken by such families to secure financing on the same basis as "limited dividend housing corporations" under section 16. This is our main plea, Mr. Chairman, for it would make a tremendous difference. Using the present interest rate of $3\frac{3}{4}$ per cent and principal payments spread over 50 years the lower income limit would be greatly lowered. With all the savings attendant on co-operative effort a house adequate for many families (CMHC Design 305, 996 square feet, $1\frac{1}{2}$ storey) would require a mortgage of \$6,000. Monthly payments on this mortgage are \$22.05, with taxes estimated at \$10 monthly and fire insurance at \$1.50. We find a total monthly payment of \$33.55 or 23 per cent of \$145.87 indicating a minimum annual income of \$1,750.44. (23 per cent of income may be too high for the very low income groups. Perhaps 20 per cent would be better even this would include families down to an income level of about \$2,000 per year.) Though armed with facts like these, we have been unable to convince the authorities that co-operative housing projects fall within the provisions applicable to limited dividend housing corporations as set out in Section 16 of the Bill.

Some of our co-operative people call this discrimination. If there is any type of organization that should qualify as a "limited dividend company" it certainly is a co-operative organization. The idea of a limitation on dividends is inherent in co-operative effort. One of the cardinal principles of the co-operative movement dating right from the days of the Rochdale Pioneers is that of limited return on capital. People do not become members of co-operative organizations in order to obtain a return on capital invested. It is our view that capital invested is entitled to a fair rate of hire or wage, and nothing more. People join together in co-operatives in order to provide themselves with a service, and it is so in housing. People join housing co-operatives in order to obtain homes and we have shown how this can be done, and how it is being done in some of the lower income groups.

We wish however to make no extravagant claim for the self-help method when section 16 is applied to co-operative housing. Even with the most favourable environment real co-operatives grow slowly because their growth depends on the unfolding ability of people to solve their problems through group action. Basically co-operative housing provides opportunity for the people themselves to plan for and to build their own homes, but to do it the more efficient way through organized effort rather than as individuals. Our experience indicates that success depends upon prolonged study and boundless energy. By no means all those in the low income groups who need houses will consider a house to be worth this effort. Our concern is simply to maintain the widest possible area in Canada's economy in which people are free to help themselves.

The principle of ownership is very important. Surely it is wiser to encourage people to participate in providing houses for themselves than it is to encourage others, however well-intentioned, to provide houses for them. Under Section 16 the member of the co-operative society would have an owner's interest from the very beginning. He and his neighbours would be subject to that greatest educational and stabilizing influence—ownership. The co-operative project would be a sounder investment because people tend to take greater care of something they own.

We are asking for no consideration not now contemplated in Bill 102. Section 16 is intended to help others to build houses for people. These housing projects may be trouble spots in the future due to neglect. The people there will have no ownership interest and the owners will have less than the usual landlord's incentive to maintain the property well—and judging by slum

areas the usual incentive has been none too great. There is only one good and sure way of avoiding this: It is to place ownership of the project in the hands of those who live there.

Why should section 16 not be used to help people to help themselves? When they have completed the group experience and their share of the work they are owners in a very real sense. The self-respect, the added dignity which comes to people who have learned to solve their problems is very significant in the long view. Co-operative participation is education of the most effective type, education for living, education for participation, education for democracy. The areas where co-operative housing has been successfully developed will never be slum areas, they will never be the spawning grounds of hate and disease, they will never be the hotbeds of subversive ideas. In them men and women and their families will live modestly and responsibly, with dignity and self-reliance, the ideal citizens of tomorrow.

Mr. TUCKER: I did not get the name of the witness, Mr. Chairman.

The CHAIRMAN: The name of the witness is Mr. Staples.

Mr. TUCKER: I would like to ask him a few questions.

The CHAIRMAN: Wait a minute, please, Mr. Tucker. We are not ready yet. When we are ready you will be the sixth on the list.

Mr. TUCKER: Oh. I thought nobody was ready except me.

The CHAIRMAN: No. I have been catching glances.

Mr. McILRAITH: What is your list, Mr. Chairman.

The CHAIRMAN: Messrs. Fleming, Stewart, Cameron, Balcom, Tucker and Hellyer.

Mr. HELLYER: Is Mr. Fleming always to be first?

The CHAIRMAN: His was the first signal which I caught.

Mr. CRESTOHL: I tried to catch your eye too.

The CHAIRMAN: I did not see you, Mr. Crestohl. Now, Mr. Fleming.

By Mr. Fleming:

Q. Mr. Staples, I take it that so far as the proposal in relation to housing is concerned, the co-operatives are thinking in terms of pooling their credit as well as their efforts?—A. Yes, that is correct.

The CHAIRMAN: Please speak up. The acoustics are very poor in this room.

By Mr. Fleming:

Q. Mr. Staples, in how many cases are the individual co-operative members of your association now incorporated?—A. Does your question refer to all Canada?

Q. Yes, it does. Can you give us the broad picture, in the matter of incorporation?—A. We have not the figures here for Western Canada, Mr. Fleming; but in the eastern part of the country there are about 60 incorporated housing co-operatives active in the province of Quebec, according to our information. Then there are about 35 in the province of Nova Scotia; some 18 in the province of Newfoundland; and I am not sure about Ontario. But my guess would be about half a dozen, I would say, in Ontario at the present time.

Q. Your answer applies to my question which related to incorporation?—A. That is right.

Q. Now the problem, I take it, is that up to the present time under the Housing Act—that is the way the provisions of the Housing Act in relation to

co-operative housing have been interpreted—your member associations, even though incorporated, have not been recognized as eligible as a limited dividend housing corporation?—A. That is correct.

Q. Have they been permitted to qualify by arranging for incorporation as limited dividend housing corporation under the auspices of any of your member associations?—A. I would suppose there is no question that a co-operative could use the Act in that way, but I doubt if it has been used in that way. Perhaps Mr. Mansur might know. I do not think there are any co-operatives which are using section 16.

Q. Now, the legislation before us in relation to co-operative housing is, I believe, the same in its effects as the legislation under which you have been working up until now. You have indicated certain things you would like to have. Have you any amendments, I mean specific amendments, that you would like to put forward, or is it simply a matter of widening the interpretation of limited dividend housing corporations?—A. Frankly we do not know what to do about this question of amendments because, I think, largely it is a matter of interpretation. Perhaps it would be wise to consider a change in the wording, where limited dividend housing corporation is defined in the second section. It may take some amendment to clear up our difficulty but I think it has been pretty well agreed that the Act as it has been drawn could permit co-operatives to use the limited dividend housing technique, provided the authorities felt that way.

Q. Is it your thought that your incorporated member organizations would qualify, as limited dividend housing corporations, or is there any desire to incorporate limited dividend housing corporations?—A. No. I would think if section 16 were available to co-operatives, that some co-operative housing associations would be incorporated for the purpose of using that section.

Q. In other words, you contemplate incorporation of limited dividend housing corporations?—A. That is right.

Q. Under the auspices of your incorporated member associations?—A. When you say "under the auspices of" I am not sure what you mean by it.

Q. Let us take an individual member association which is now incorporated. Presumably as such it is not a limited dividend housing corporation, but it would procure incorporation, presumably under provincial laws, by which as a limited dividend housing corporation it could proceed to construct homes for the members of that association?—A. Well to the extent that that crucial point is limitation of dividends, of course, a cooperative corporation would qualify because a proper cooperative limits its returns on capital and distributes the surplus, if any, in terms of patronage rather than in the form of interest on investment.

Q. I do not want to go too far into technicalities, but I take it your position is this: that if your member associations in any case qualify as limited dividend housing corporations, it would permit them to receive the benefits under the Act as limited dividend housing corporations?—A. I am not speaking for any particular organization that is active in the housing field, Mr. Fleming. I come here today as a representative of the cooperative movement generally in order to seek an opportunity for cooperative housing to operate under the limited dividend set-up.

Q. I was trying to get at this: the method by which you propose to qualify. I think we can see the problem here for you is a matter of the interest rates largely. You want to get the benefit of the low interest rate, the $3\frac{3}{4}$ per cent. —A. Yes, and the longer period of amortization the higher percentage of the total capital required.

Q. I am interested now in the particular method by which you hope to achieve that aim. I understand there has been some problem between you and Central Mortgage and Housing Corporation in that regard.—A. A group of people who are interested in building houses for themselves, like most of the people sitting around this room here today, would study the question of cooperative housing, and at the proper stage, they would seek to use section 16, and they would approach C.M.H.C. for the assistance provided by that section.

Q. Without limiting the point, you can see that there will be amendments involved if your particular set-up does not fit into the definition of limited dividend housing corporation. You have to be a corporation to begin with. I will not bother you with that. Then the next thing you may have to consider is the technical amendment which may be required to bring about the use which you urge, that limited dividend housing provisions of the Act be made available to the members of your association.—A. It seems to me that the only amendment required is an amendment which would clearly provide that the section in question is intended to apply to cooperatives of the proper type.

The CHAIRMAN: Now, Mr. Stewart.

Mr. McILRAITH: Mr. Chairman, before Mr. Stewart begins, might I raise a point that might be of interest? I understand the set-up here is that Mr. Staples is President of the Ontario Association of Cooperatives.

The CHAIRMAN: Yes.

Mr. McILRAITH: And I also understand that Father Marrocco is the one who has been dealing with housing cooperatives in particular for the last seven or eight years. If I am right on that, it is just possible that Mr. Staples may want some of the questions to be answered by Father Marrocco.

The CHAIRMAN: I indicated to Mr. Staples that he could consult any of the persons who are with him, or call on them to answer questions if they became too technical for him. Now, Mr. Stewart.

By Mr. Stewart:

Q. I think this is one of the more important questions arising out of this brief. I wonder if Father Marrocco or Mr. Staples can tell us just what happens to these groups. We have been told that these groups carry on studies with a view to becoming organized before building is started.—A. If I might, Mr. Chairman, I would like to refer that question to Father Marrocco.

Rev. F. A. MARROCCO: Mr. Chairman, and gentlemen, we in our procedure encourage heads of families to go into cooperative housing and feel that you must provide for them some form of study program, with very definite study material, which can be used by them to make themselves intelligent in those things which they will have to face both before they begin a building program and during it. We also feel that the study program should be of sufficient length that these people not only become possessed of information, but that there takes place some kind of formation. We are convinced that not all the information in the world will necessarily lead people to have the kind of attitudes and the kind of spirit needed for them to really cooperate, to work jointly throughout a building program. Perhaps the majority of them might in many instances be required to down personal preferences in order to think of the last member of the group, who might have the lowest income in the group. It is no easy thing to ask people who themselves may have an income which permits them to build a house with certain frills, and with added conveniences; it is no easy thing I say to ask them to forego these in order that they may help those in the group who because of a lesser income would have to say to themselves I cannot hope to afford those extras. Thus you can see that the study program must not only give information, but, as I said, over a period of time must cause

these people to become a fellowship or brotherhood so that they are quite concerned about everybody in the group and not self. More than that you must bring these people to the point where they can be sure if they walked out of a room that all those remaining have their interest at heart even though they are absent. That is true cooperative spirit. That is the first point.

The second thing I have to point out is the nature of the study program we have which is known as "A Guide to Cooperative Housing" published by St. Patrick's College here in Ottawa. There are eight booklets ranging from the first chapter which deals with the kind of educational program they are going to go through, a brief history of the cooperative movement itself, the principles which the cooperative movement follows, and the preliminary information they need so that they can say to themselves I want to go into this or I do not.

The second chapter gives those who are studying some idea of what has been done in a cooperative way. Mind you, these people are even told that there have been many cooperative efforts which have failed, and the reasons for their failure are pointed out. Precise quotations from some of these groups in various parts of Canada and other places are in the chapter so that these people who are studying take a real look at what others have done.

The third chapter describes the procedure that will have to be followed to finance the cooperative venture.

The fourth deals with legal steps involved.

The fifth chapter deals with the things a group must know in order to find a suitable site.

The sixth chapter deals with the things that a group must keep in mind in selecting plans.

The seventh then describes the labour program that must be put in by the Co-op members themselves physically, and describes in a rudimentary or elementary way at least the technical details of construction.

These men, therefore, before building a house, have some knowledge of what they are faced with in a construction way. That is in brief an idea of the material which is used. We in Ottawa, and in other places, have set up what we call a study class or an evening class. It is announced to those interested in it that anyone, regardless of race, creed or colour may come to the class and there hear a description of what cooperative housing is all about, what the study program will be like and state if they are interested in becoming part of a study group. When there are between twenty and twenty-five family heads represented, these are then formed into a study group. They elect their own officers and for study purposes they carry on study of the material in their own homes. For study purposes a group of 35 or 40 is divided into study units. In those units you have a certain leadership and they are organized to go through this study material from chapter one to chapter eight. During that time they also take part in conferences which are held from time to time and which supply any information which they may not find in the "Guide."

When the time comes for them to prepare themselves for incorporation, they have at their disposal both the Institute of Social Action at the college, the Co-operative Union of Ontario and the Co-operative Union of Canada, to provide them with any technical advice which they need.

I would really like to let others say what more may be said on this subject, because sitting around this room today I notice many men who are participating in the study program in Ottawa. I am sure if they were asked these men would say that if they never got a house through their cooperative study, the study itself would still have been a tremendous thing for them.

I think you can see from the description which I have given you it not only helps people build houses but also gives them a training in leadership, in parliamentary procedure, in working with others, through collective action, which would be very difficult to duplicate in any other way.

Mr. STEWART: Can you go further? You have told us how the study group progresses, but surely there is more to it than that. Once you finish your study group and preliminary action, how do your members participate to help each other?

FATHER MARROCCO: When the time comes for them to incorporate they will have to appoint themselves a board of directors. Besides a board of directors they will have to have a manager. Conceivably the manager himself and any other officers in the society will be part of the board of directors. They will also have an assistant manager, and these officers will figure out the number of hours which the men, because of their own daily work, could possibly put in on the site in their spare time, evenings and weekends. They will also figure out what amount of skilled labour will be required to do the skilled part of the work, and what sub-contractors are going to be needed. For example, I think you can readily understand that the Co-op members could hardly do the plumbing or the installation of heating equipment, and so there might be a certain portion of the work which would have to be sub-contracted. You can also understand that some of the carpentry work required would need skilled labour.

In the first building group here in the Ottawa area, they are mostly civil servants. I would say that two-thirds of those fellows never had a hammer in their hands. You could hardly expect that even if they worked for two years they would acquire the experience necessary to do some of the skilled labour that is required. On top of that we have felt from the outset that besides all this there should also be employed by a co-operative group a supervisory firm, some reliable contracting firm, experienced over a number of years, to actually guide and supervise the whole construction program, and in effect to sign a contract whereby they would take complete responsibility for the proper completion of these houses.

Now all of these are arrangements that have to be made by a co-operative group. The group building at Lakeview Terrace have averaged approximately 25 hours of work per week per man in their spare time. To give you some idea of how these men have progressed through the experience they have received, the first time they put the sheathing on the roof of one of those houses, it took them one week. A crew of 12 of them worked on this, six on each side of the roof. Before they had half-way completed the job of roofing these houses, the same crew of 12 were putting on the sheathing in two hours. The same could be said for all of the various parts of the work which the co-operative boys do themselves. I think you can readily understand that this is a wonderful education for any of these men to receive. I would like to stress one point, that in a given week the 25 hours I mentioned are hours they put in on the side, or in their spare time, apart from their daily jobs.

Mr. STEWART: And those hours are credited to them by Central Mortgage and Housing as part of the down payment on the house?

Father MARROCCO: Yes.

Mr. STEWART: Well, tell me this: as an incorporated group, would the members become eligible for tenancy under section 16, under a low rental scheme?

Father MARROCCO: I doubt that very much because actually you can understand when you talk about the Deschenes co-operative, you are talking about owners who from the outset have so incorporated themselves. They are

incorporating themselves to have ownership. Now, whether at the end of construction the ownership remains in the hands of the whole group is a matter to be decided by the group itself. In other words, if there were 34 members of a co-operative, either each individual would have a $\frac{1}{34}$ th partnership, or individual title can be given. They are owners and not tenants in the case of "individual title" co-operatives.

Mr. STEWART: To use the words in the brief, you have been "unable to convince the authorities" that this is a good idea. Do you think it is better to have men renting homes or owning them?

Father MARROCCO: I could make a very long speech on that. I think it is quite apparent that it would be better to have people owning homes, if, as a matter of fact, all the conditions are there for them to be able to handle ownership.

Mr. STEWART: I have more questions but perhaps someone else would care to advance a question.

Mr. MACDONNELL: May I ask one question on procedure, which will only require a word, in order to clarify the situation? Just what change would the Co-operative Union of Canada want to have made in the present bill?

The CHAIRMAN: The brief contains it. They state their difficulties and desires in the brief.

Mr. MACDONNELL: But we have not yet had a definite suggestion of amendment to section 16.

The CHAIRMAN: They may not have it in legal terms but I understand their request as stated in the brief.

Mr. CAMERON: I think the questions I want to ask deal with the point Mr. Macdonnell had in mind. As I recall it Mr. Staples, you said something to the effect that it was pretty well admitted that the present provisions of the Housing Act could be made to cover co-operative building enterprise. Now, did I understand you right on that?

Mr. STAPLES: I do not want to give you any false impressions, Mr. Cameron. I think it is a matter of interpretation. Mr. Stewart put his finger on some of the difficulties. I suppose it could be said that there is no clear cut distinction between owner and tenant in a co-operative housing society. The owners and the tenants, if I may use those words, (we would like to call them "members" and neither owners nor tenants,) but the owners and/or tenants are in a way the same people. Now we suggest that since we have here an incorporated body, a co-operative housing society, which is a legal entity and exists in its own right, that it could rent houses or apartments in this co-operative housing project to a member of the society, and that, by one who desired to do so, could be interpreted as rental housing. As a matter of fact it is not being interpreted that way. The ownership aspect of it is emphasized by the authorities. We could look at it either way because a member in the housing group is a sort of hybrid, who is both owner and tenant at the same time. You will perhaps begin to see that it is a matter of interpretation and the nature of the interpretation we have in mind.

Mr. CAMERON: Perhaps Father Marrocco could answer this for me. You spoke of the election of a board of directors and the appointment of a manager. Could you tell me, Father Marrocco, if that is a permanent thing? Does that board of directors go on functioning permanently or does it function only during the period of construction?

Father MARROCCO: As long as the society does not dissolve itself it remains an incorporated body.

Mr. CAMERON: What would be the function of that board of directors and manager after the construction of the project had been completed and where members had taken possession of the houses?

Father MARROCCO: Under their incorporation they are classed, as a matter of fact, as having become incorporated with a view to building homes, not houses. Therefore, you can see there are many other things they could do co-operatively in order to promote home life. Hence, as far as their incorporation is concerned, if a group decided themselves that they wished to dissolve at the end of the construction of the houses they would be able to do so. Now, one of the things that we have encouraged in cooperative housing is the idea that members should remove all possibility of speculation, both before the incorporation and after the houses are constructed. In other words, I think you can readily see that if it were possible for a person to build for let us say \$7,000 a home that possibly would be worth \$11,000 to \$12,000, somebody who already owned a home might say to himself, "I could certainly sell my own home and make myself \$4,000 or \$5,000." Therefore, one would be asking all the other members of a group to help him profit by that much. Cooperatives therefore make some effort to ensure that nobody speculates in that fashion. Hence they remain a society for whatever number of years they wish, and during those years the Board of Directors would be called upon to enforce by-laws in their constitution whereby they wipe out any form of speculation or profiteering after completion.

Mr. CAMERON: But would there be a continuing organization which could continue to function if, for instance, subsection 23 of section 16 which defines the limited dividend housing companies were amended specifically to include such a group? Would there be a continuing organization?

Father MARROCCO: Definitely. In fact, in some cooperatives, as I told you, no person ever gets individual title. If they want to they can continue co-operative rather than individual ownership for as long as they like.

Mr. CAMERON: Can you tell me this, Father Marrocco; have any such groups, as you have mentioned groups in which the members do not ever receive individual ownership ever applied to Central Mortgage and Housing to come under the provisions of the limited dividend housing?

Father MARROCCO: I do not think so. As far as I know, they have not. I would say that perhaps one reason they have not is because those of us who have been in touch with the authorities have not received any encouragement in that field, as you can see from the way we are talking ourselves. We have received no encouragement that we might be considered as limited dividend companies. I think you know that up to now the only type of limited dividend company they have dealt with is one dealing in terms of low rental houses.

The CHAIRMAN: Mr. Balcom?

Mr. BALCOM: On page 3, paragraph 3, of your brief you refer to a typical cooperative housing project. I would like to ask if this project mentioned here is not similar to or based on the Nova Scotia Commission Act which has been operating successfully in the construction of homes for a number of years?

The WITNESS: Yes, they would be very similar organizations.

There are two broad types of cooperative housing set-ups, one where the corporation as such owns and continues to own the property, and the member lives in one of the units as a tenant more or less, and the other type which is not very much more than a cooperative building society where at some stage the full title to the house is turned over to the member.

The CHAIRMAN: Mr. MacEachen, in questioning the witness on February 11, at the bottom of page 139, you asked this question:

Q. I have one more question and it is this: has the Central Mortgage and Housing Corporation made any advances to the Nova Scotia Housing Commission in their activity in this field?—A. Yes. We have an agreement with the Nova Scotia government under section 35 of the National Housing Act under which the Nova Scotia government has appointed a Nova Scotia Housing Commission as their agent to deal with us. Under the terms of section 35, it is possible for us to join with the Nova Scotia Housing Commission and provide three-quarters of the funds required for the operations of the Nova Scotia Housing Commission. As you are aware their operation has been highly successful. In my opinion, they represent cooperative development at its very best and I think it is a particularly happy arrangement that allows us, under section 35, to provide financial support and thereby extend the activities of the Nova Scotia Housing Commission.

That is found in Mr. Mansur's evidence given on the 11th February.

Mr. CAMERON: That section 35 referred to there would be section 36?

The CHAIRMAN: Yes. I thought I would bring you up to date, as some members might not have been present on Feb. 11th. Mr. Tucker.

Mr. TUCKER: What stage have your houses at Deschesnes reached? Are they almost finished?

Father MARROCCO: Our people hope they will be able to move in in the month of May, and they started to build them on the 12th June, 1953.

Mr. TUCKER: How many houses are there in that group?

Father MARROCCO: 34.

Mr. TUCKER: How much is it going to cost per house in cash, outside of the labour put into them?

Father MARROCCO: When you say "cash", whose cash? The member's?

Mr. TUCKER: Yes.

Father MARROCCO: It varies. Where you have people operating as individuals, I think you can readily see they sometimes might have great difficulty in getting a loan as compared with when they are part of a group. If there happened to be one fellow, for instance, who had funds of \$1,500, he would certainly be of great help to the fellow who did not have that much. Hence in this group at Lakeview Terrace it varies, but I would say that, on the average, everyone there was required to have at least the payment for the lot and enough to bring the house to the "first joist" stage.

Mr. TUCKER: That would be how much?

Father MARROCCO: The average cost of those lots was \$630. Some cost more, some less.

Mr. TUCKER: The average amount they would have to put in, in cash, in addition to that, would be how much?

Father MARROCCO: In the case of a co-operative it is surprising how much they can do with very little money to reach the first joist stage, which is the point at which they get their first progress payment. I would say \$750 to \$900 brought them from the day they excavated to the first joist stage, that is, \$750 to \$900 per member.

Mr. CAMERON: In addition to the lot payment?

Father MARROCCO: Yes.

Mr. TUCKER: Can you give me an estimate of the average contribution that each was able to make? In other words, you have a house worth a certain amount, and at the end of the time when it is finished you would also know of

the cost on the average in cash. I want to know how much each individual saved by being in this co-operative and working with the others towards the building.

Father MARROCCO: Well, there is one of the plans they are building out there, that is plan 309, in the small house book of Central Mortgage and Housing Corporation, and that house, I think, is selling for approximately \$10,500 to \$11,000. They are building that house for about \$6,300 co-operatively.

Mr. TUCKER: You are familiar with the co-operative plan for small buildings V.L.A. have gone ahead with?

Father MARROCCO: Yes. The Carleton Heights.

Mr. TUCKER: Under that plan they have built houses that would be worth \$11,000 or maybe more, and it may have cost them, according to my impression, somewhere about \$7,000. I cannot remember the figures.

Father MARROCCO: I am not saying that all the houses cost \$6,300 in the Lakeview Terrace group. I suppose the average cost of their houses will be around \$7,000. That is for the whole 34, if you average them across the board, it would average \$7,000.

Mr. TUCKER: What you say is true; they have worked very hard at Carleton Heights to establish their houses, but they have done a wonderful job.

Father MARROCCO: That is right. I might say that one of the reasons we felt that the employing of a supervisory firm and the employing of skilled labour was a very wise move is this, that most co-operatives have taken anywhere from two to four years to complete the houses which they have built, meaning, therefore, that quite a good percentage of the members continue to pay rent during those years. Therefore, what they would be paying out in rent during those years could be easily used to pay for skilled labour and a supervisory firm in order to complete the houses in one year instead of four. In other words, the cost of their houses during a period of construction should include what it is costing them to live in that time, and if you could cut that down you could use the saving for the houses they are now building.

Mr. TUCKER: Is it correct to say that they will be able to borrow at the present time under this housing Act in one way or another practically all of the cash outlay by putting in so much money?

Father MARROCCO: No, that would not be true. I would think, as a matter of fact, if co-operative operated successfully, they might by the time they were through perhaps have to have only the outlay of their lot cost, depending on how much work they put in themselves. You can see that the more they do themselves the less need there is for skilled labour, and the less the eventual cost.

Mr. TUCKER: You have several similar plans going on in other parts of Canada?

Father MARROCCO: That is right.

Mr. TUCKER: One of the points I wanted to ask you about is: in some of our more outlying areas and in small urban centres where they have not got sewer and water, are you encouraging them to go into this sort of thing there, where the houses probably would not cost more than \$4,000?

Father MARROCCO: So far we have had so many people asking for our help, who are in the urban areas, that we certainly have not been able to devote time to help all those who are asking. It may interest you to know that there are between 25 and 40 families in a group and at the present time we are guiding through a study program over 30 groups just in Ontario cities and towns.

The CHAIRMAN: Mr. Hellyer.

Mr. HELLYER: I have a number of questions, Mr. Chairman. Firstly, approximately how long does the co-operative housing study course take?

Father MARROCCO: Mr. Hellyer, it varies, but we personally feel, as I told you, that, since it is necessary not only to inform these people, but also to form a co-operative spirit and co-operative attitude, we like to have them study at least eight months.

By Mr. Hellyer:

Q. My second question is this: In your statement on page 2 you give an example of a place at \$10,000 lending value, with taxes at \$20 a month. Nevertheless, on page 5, when indicating what can be done under your cooperative housing projects under the proposed section 16, you estimate those taxes at \$10. Why is there that difference?—A. That is a good question. In the first instance we followed the example which was used not only in *Hansard* but in this committee perhaps more than once, in the second instance we used a rural example. The Deschenes group came under a rural situation, and at the present the taxes will require about \$10 a month. It is doubtful, it seems to me, whether people in the very low income groups can hope to finance homes in urban areas. They are going to have to move out quite a distance.

Q. My third question is this, Mr. Staples: It seems to me, after having read your brief, that what you are really asking for is a 90 per cent loan, with 3½ per cent money and a 50 year amortization for home ownership. Is that correct?—A. I think the section provides for loans up to 50 years, and I think that the bill provides for an interest rate which would not be more than ½ of 1 per cent more than government bonds. But as for the 3½ per cent, we were taking the present rate which has been extended to limited dividend housing corporations. If I am wrong in that, perhaps Mr. Mansur would be good enough to correct me.

Q. In essence then, that is what you would like to have?—A. Exactly, yes.

Q. My next question is this: If you feel that these provisions should be made available to cooperatives, do you not think they should be made available as well to all prospective home owners?—A. Now?

The CHAIRMAN: All prospective home owners in the low income group, let us say?

Mr. HELLYER: That was not my question, Mr. Chairman.

The CHAIRMAN: Very well. Let your question stand the way you asked it.

The WITNESS: We feel that the cooperative organizations should be considered. I am trying to word it carefully. We feel that cooperative organizations could be considered to qualify under the present terms of the proposed legislation, if it were desired to do that. Cooperative corporations could rent premises to the members and it could be considered rental housing. It is pretty difficult to see how you could provide it for the individual on the basis of rental housing.

Mr. HELLYER: You say it could be considered as rental housing, but that you have to be qualified under the Act.

The CHAIRMAN: I am troubled with your statement on page 6 where you say that the principle of ownership is very important. In the light of the question, how do you reconcile the two?

The WITNESS: It is a good question, Mr. Chairman, and I do not know if I can make my point of view clear. I think that the principle of ownership is very important, but in this case the individual is not the owner. He has the owner's interest but he is not the owner. The corporation is the owner.

When we come to the government to talk about the taxation of cooperatives, they always insist that the cooperative is a legal entity, and that the

member is apart from it, and we have never been able to merge the two in legal thinking. We are only doing the same here. In this case we think that an incorporated housing cooperative is a legal entity. It rents, you see, each dwelling unit to someone who happens to be a member of that corporation—he might be a shareholder of lots of other corporations too—he has an owner's interest, but he is not the owner. The corporation is the owner.

By Mr. Hellyer:

Q. From what you have said, Mr. Staples, I gather that what you want are terms which are similar to those which you outlined a moment ago, and you do not feel that we are likely to make that provision under the Act. Therefore, if we amend the definition of "limited-dividend corporation", you might accomplish the same thing?

The CHAIRMAN: Yes.

The WITNESS: Since I am being pressed for an amendment here goes but I hesitate to suggest one. I would rather leave it to men who are more skilled in that field. It seems to me that in section 2 subsection 23, if there were a very slight addition and it were amended to read:

(23) "limited-dividend housing company" means a company or a cooperative housing group incorporated to construct, hold and manage a low-rental housing project . . ."

Then I think it would be crystal clear, but it could only apply to cooperative housing projects of a certain type. That is why I hesitated; the cooperative must continue to own and rent to its members. It is not as simple as that, but you get the idea of what I am driving at.

By Mr. Hellyer:

Q. Is there a limit to the income of the people who may become members of cooperative associations?—A. No, there is not.

Q. You say there is no limit to the income. For instance, any one of us here could join a cooperative society, and if these provisions were enacted, we would then qualify to get a loan under the cooperative, through this limited-dividend section?—A. Of course, the main limitation is that of a 5 per cent return on the investment, but that is not the only condition that limited-dividend housing corporations have. The corporation would have to be acceptable to C.M.H.C., however.

Q. You feel then that a screening would take place with respect to people of higher incomes and that they would not be qualified, while those with lower incomes would?—A. We are not having a great deal of trouble with people whose incomes are inordinately high.

Mr. STEWART: Are you building homes for people who otherwise would not have homes?

The WITNESS: In many cases that is very true, Mr. Stewart. They may have homes at the present time, but not good homes.

Mr. STEWART: I mean adequate accommodation.

The WITNESS: Yes.

By Mr. Hellyer:

Q. On page 5 of your statement you say, Mr. Staples:

(23 per cent of income may be too high for the very low income groups. Perhaps 20 per cent would be better but even this would include families down to an income level of about \$2,000 per year.)

Would you mind explaining that, please.—A. Well, it seems to me, speaking as a layman with respect to this housing business, that the higher the income of the individual, the larger the percentage that he can afford to set aside

for housing, because although the percentage is high, he has more dollars remaining with which to live and to keep his family. In the case of owners in the low income brackets, the percentage that often has to be set aside is just as high. But we are talking about the percentage that should be set aside, and we think it should be lower than that of the middle or upper income brackets. We were simply saying there that C.M.H.C. appears to have established it as a general rule, that is, the 23 per cent. We simply use it as a working figure and we say:

We find a total monthly payment of \$33.55 or 23 per cent of \$145.87 indicating a minimum annual income of \$1,750.44 (23 per cent of income may be too high for the very low income groups).

Perhaps we should not ask for terms as high as 23 per cent.

The CHAIRMAN: That is the point. Why take 20 per cent, or 23 per cent? Why adopt either one or why put so much emphasis on it?

The WITNESS: I think that the emphasis has been inherent in the discussion of the subject.

The CHAIRMAN: Would you like to disagree with it?

The WITNESS: No. I do not disagree with it. As a matter of fact, I think I would say that we feel in our co-operative housing groups generally that 23 per cent is not far out.

By Mr. Hellyer:

Q. But that 20 per cent might provide more benefits for people of very low incomes?—A. That is right if you mean more benefits because they have a greater percentage of income left for other purposes.

Mr. TUCKER: Mr. Chairman, I have just one question.

The CHAIRMAN: No, Mr. Tucker, Mr. MacEachen is next on the list. I will give you an opportunity later.

By Mr. MacEachen:

Q. Mr. Staples, in his evidence some days ago Mr. Mansur stated that the current definition of limited-dividend corporation includes housing associations and presumably, at that particular time he gave some reasons why the interpretation was such; presumably there would be no change in the interpretation. Now, it seems to me that, just to lay a basis for my question and to draw in the province where most cooperative housing experience has been gained, the Nova Scotia Housing Commission has an agency to deal directly with cooperative housing associations and each cooperative housing association is incorporated under the Nova Scotia Companies Act and receives from the commission loans, I think, at the rate of 4½ per cent or thereabouts and the amortization period is twenty-five years.

Now, any relationship between the Nova Scotia housing development and Central Mortgage and Housing is through the commission and is purely in relation to finance. What I want to ask Mr. Staples is: do you not think it would be a much more direct approach to make to this committee to ask that housing cooperatives be regarded by Central Mortgage and Housing in exactly the same sense as they are regarded by the Nova Scotia Housing Commission and not brought under the limited dividend section and so confusing the idea of ownership with the idea of rent and so on. That is what I am asking. Instead of asking for a new interpretation why do you not ask for something more direct?—A. Is it not true that the Co-operative Housing Development in Nova Scotia depends for its success on provincial legislation that complements the National Housing Act and to extend that to other provinces would it not require the passing of provincial legislation?

Q. I am just saying that from your evidence I would conclude that you would expect cooperatives—housing operations—to come under this section with no change in the section which would mean, for example, with the fifty year amortization period or less and would mean that the housing cooperative would be the limited dividend corporation and would be lending to its own members as, say, the Rotary club would lend to low income groups. I want to say that I am very much in sympathy with your request, but I would like to see it as a very much more direct one.—A. We are faced with this bill which is before this committee. Our real objective is to increase the number of potential members in housing cooperatives, that is, the number of people who can use the cooperative method to provide themselves with good homes. Now, we can only do it to the extent we can get the cost down for those very low income groups. If we could have something which provides money at $4\frac{1}{2}$ per cent as compared with $5\frac{1}{4}$, $5\frac{1}{2}$, $5\frac{3}{4}$, whatever it is going to be, it would be a help of course, and we could very quickly make the calculations to fix the minimum income required. But, here is section 16 which is now being used to provide houses for people who need them. Those of us here at this head table could organize a corporation to build houses for all in this room and if we would accept certain provisions the government would provide most of the money over many years at a very low rate of interest. On the other hand, if those of us at all these tables wished to provide houses for ourselves, we cannot get that sort of assistance. We are only trying to use the machinery offered to get the cost down as far as we can.

Mr. MACEACHEN: Father Marrocco, at the present time you are building this project with funds provided by the Marrocco Home Building Cooperative, and you are getting those funds as individuals, not because of your membership in the cooperative?

Father MARROCCO: That is right as far as funds to the first-joist stage are concerned.

Mr. MACEACHEN: What income limitation have you made in the organization of your housing groups because you are doing business as an individual? And, secondly, how would the application of this section affect you in your particular operation?

Father MARROCCA: The income limitation is about as low in the income ladder as you can afford to go. At the present time it is about \$2300 or \$2400. That is the very lowest. Even then those with that type of income would have to be in a group having others with higher incomes, in order that the whole group may have a financial ability from the start to get to the first joist stage. Secondly, the lower the interest rate goes down, the more people you are going to be able to encourage who are earning less than the \$2400.00 mentioned above. As you know people earning \$2400 can carry mortgage payments of a certain nature. Those who have a lesser income certainly could not carry these payments. So, the interest rate is important, although at the same time you can see that a person earning \$2400 certainly would not be able to choose a plan of a size, or square footage, or cubic footage, that would cost him more than he can afford; but, the lower interest rate would certainly enable more people to participate in cooperative housing.

The CHAIRMAN: My list is: Mr. Fraser, Mr. Boucher, Mr. Johnston, and Mr. Henderson. May I ask you to limit yourselves to five minutes.

Mr. FRASER (*Peterborough*): Two questions I had in mind have been answered. The question I would like to ask now is this: under the set-up which Father Marrocco has at the present time they are receiving loans individually. Under the plan they would like it would be collectively perhaps 30 or 40 houses. At the present time if something happened to one of the

members of the group he would be able to get his money back because of being an individual and it being in his own name, but if it were under the name of the group of 30 or 40 and he put in perhaps \$600, if he moved away how would he get the money or how would his estate get the money?

Father MARROCCO: I might say that with this group building at Lakeview Terrace the mortgage money borrowed under the N.H.A. was not borrowed by them as individuals; in other words, it is a blanket loan to the cooperative by Central Mortgage and Housing, but that blanket loan is the sum total of the individual mortgages each of them could carry.

Mr. TUCKER: What is the rate of interest on that loan?

Father MARROCCO: I think it is 5½.

Mr. FRASER (*Peterborough*): Under the new set up which you would like what would happen if someone participating had to move away?

Father MARROCCO: As a matter of fact the same thing holds right now. It would be no different, as far as I can see, from the present situation, since they are borrowing on a blanket loan basis. They would be borrowing on a blanket loan basis in the future. If somebody moves away there would simply be a transfer of the membership to somebody else.

Mr. FRASER (*Peterborough*): Thank you.

Mr. BOUCHER: Mr. Chairman, the witness refers to the Union as operating in all provinces except Quebec. At page four in the brief he refers to what the Hon. Mr. Winters said in the house, and then states: "we think perhaps he had cooperatives in mind", and refers at the bottom of the page to Deschenes, Quebec. I do not understand what you meant respecting Quebec. Are you operating in Quebec? Have you a scheme at the present time in the province of Quebec?

The WITNESS: When I was reading that sentence I made a correction in it. The text should have read "as a matter of fact there are in Ontario and Quebec, cooperative groups".

Mr. BOUCHER: Are you operating in Quebec or have you cooperative plans of such a nature in Quebec?

The WITNESS: I should like to ask Father Marrocco to explain the difference between the Deschenes project—

The CHAIRMAN: The answer to the question, whether you are operating in Quebec, is yes.

The WITNESS: Yes, the group that is building at Lakeview Terrace, which is in the province of Quebec, is using the same study material and plan put out by St. Patrick's College.

Mr. McILRAITH: The studying is being done at St. Patrick's College in Ontario but the land on which the houses are being built is in Quebec.

The CHAIRMAN: Mr. Johnston?

By Mr. Johnston:

Q. I have just a few short questions, Mr. Chairman. Did you say, Mr. Staples, that a house costing \$10,000 under the Central Mortgage plan could be built for about \$6,000?—A. I do not remember saying that.

The CHAIRMAN: Someone said \$6,300.

Mr. FLEMING: Father Marrocco.

Mr. JOHNSTON: A house which would cost \$10,000 under the Central Mortgage and Housing plan could be built for that sum, is that right?

The CHAIRMAN: Father Marrocco could perhaps answer that question.

Father MARROCCO: The plan 309 which I think is being built by contractors for around \$10,000 is being built at the Lakeview Terrace project for about \$6,300.

Mr. JOHNSTON: What method of inspection would you provide to see that these homes would satisfy the building standards of C.M.H.C.?

Father MARROCCO: C.M.H.C. provide their own inspection as far as the houses are concerned. The Central Mortgage and Housing inspector is out there regularly; constantly.

Mr. JOHNSTON: Would they necessarily provide inspection to see that the houses are being built according to standards?

Father MARROCCO: Oh yes.

The CHAIRMAN: You are not complaining that you are not receiving enough inspection, are you?

Father MARROCCO: No, in fact I would have to say very frankly that Central Mortgage and Housing is itself very "cooperative" with co-op housing groups.

Mr. JOHNSTON: What I have in mind though, Mr. Chairman, is this: I think Mr. Mansur said the other day that Central Mortgage and Housing inspectors were not put on the job necessarily to see that the houses were being built according to those standards laid down by the National Housing Act, but to see that their equity was properly taken care of. My question is a little different from that. I wanted to know what inspection provision you would have on your own behalf to see that the houses are being built according to the standards laid down by the National Housing Act?

Father MARROCCO: Well, first of all, I think you can well understand that the members themselves, as the owners, are going to be pretty good inspectors.

Mr. JOHNSTON: Of course you have amateur labour there?

Father MARROCCO: Yes, but you would be surprised how "nosey" fellows are when they are owners. Secondly, as I told you, there is a supervisory firm employed, a contracting firm which supervises the construction.

Mr. JOHNSTON: Now, that is a point. Does that contracting firm inspect the houses on their own to see that they are being built according to standards?

Father MARROCCO: They have a supervisor on the job all the time, from start to finish.

Mr. JOHNSTON: There could be no objection from Centrage Mortgage and Housing as to the proper standards under which the house is being built?

Father MARROCCO: No. I think Mr. Mansur is present and would speak for Central Mortgage and Housing, but I have personally been out on the site when some representatives from C.M.H.C. have been out there, and as I can find out they are pleased with the work that is being done. I personally have been interested in housing a long time and I will make a bold statement: "I would like to see you find better built houses anywhere."

The CHAIRMAN: Mr. Henderson?

Mr. HENDERSON: I imagine Father Marrocco should answer this question. In Mr. Fraser's question he asked what would happen after the tenants moved away when they found themselves unable to meet their commitments. I want to know what in your constitution would protect the tenants themselves who had entered a cooperative housing project and then found the cooperative itself could not meet its commitments?

Father MARROCCO: I think you know that these cooperatives are incorporated under provincial legislation. They have a certain authorized capital, and as far as the society in general is concerned they are bound by the same rules which govern anyone else.

The CHAIRMAN: I must advise you, Father, that you are talking to a very capable company lawyer.

Father MARROCCO: I hope you can see from the description I gave of the extensive education program and the removal of risk, there is every effort made to see that no Co-op corporation is formed unless one is sure that all the risks are removed. If a corporation were to fail, in my opinion it would fail from gross miscarriage of cooperative principles, and as long as you can make sure that does not happen, I do not see why it should fail.

The CHAIRMAN: I note that Mr. Adamson, Mr. Weaver, Mr. Crestohl, Mr. Stewart wish to ask questions. I suggest that you confine yourselves to two minutes apiece, and that we close with questions by Mr. Macdonnell.

Mr. ADAMSON: I want to know, Mr. Staples, when the residents of cooperative houses receive clear title?

Father MARROCCO: In the Lakeview Terrace project they will receive clear title as soon after the completion of construction as possible.

Mr. ADAMSON: Then what obligation do they have to the cooperative?

The WITNESS: After they receive title?

Mr. ADAMSON: Yes.

Father MARROCCO: As I mentioned before, they have in their constitution certain provisions whereby the members of the organization undertake to conduct themselves in a certain way both with regard to what they may build on their property and how they may rent it and things of that nature, and each member in the organization signs a memorandum of agreement to that effect.

Mr. ADAMSON: But the point I am not clear on is this: when the house is completed and the family moves in, is it completely paid for at that time? Yes or no?

The CHAIRMAN: It is subject to a mortgage, is that right?

The WITNESS: Yes.

Mr. ADAMSON: Yes, then the repayment of that mortgage is along the conventional lines?

Father MARROCCO: Once a person gets individual title, yes, but as you can understand, the advantages that a member has in a cooperative are many. For example, many of them have what is called a "hard times" fund, whereby if some fellow got sick and possibly could not meet his payments for several months because of his illness, that "hard times" fund would assist him.

Mr. STAPLES: To keep the record straight, I would like to repeat that there are two types of cooperative development. As pointed out by Mr. MacEachen, the members of the cooperative in Nova Scotia never gain clear title to their homes. There are the two distinct types. Father Marrocco is still right as far as his group is concerned.

Mr. MACEACHEN: To clear that point, I think in Nova Scotia, Mr. Staples no member receives clear title until the group pays off the mortgage, but at the end of that period of 25 years they can dispose of their ownership as they like. The individual can get clear title when a group debt is paid off?

The CHAIRMAN: No member receives clear title until then and what happens after that depends upon the individual.

Mr. ADAMSON: Thank you very much, I was not clear on that. Then there is one other question I would like to ask: is there any provision made for the building of multiple dwellings for the small family and the single man who, by the very nature of his employment works in one locality for perhaps a few months or a year or two and then in order to better himself moves on to some other town, city or some other company?

The WITNESS: The members of a specific housing cooperative society would build whatever type of housing they were interested in. It might be single family units or something else. As far as I know, it is only in the province of Quebec that we have multiple family cooperative projects.

Mr. ADAMSON: I understand there is a railway cooperative in Toronto that is very active. Do you know if they are building houses?

The WITNESS: I do not know of them.

Father MARROCCO: I do not know of them either. There are groups in Toronto at the present time studying with a view and a hope of building apartment houses cooperatively.

Mr. ADAMSON: Yes, because the railway employee may be moved from one division to another and would be interested in that type of dwelling. Perhaps I did not explain myself quite clearly, but I was referring to apartment houses.

The CHAIRMAN: Mr. Weaver?

Mr. WEAVER: Mr. Staples, if you were to come to C.M.H.C. now with a cooperative organization 100 per cent of whose members qualify for low rental housing, would you not anticipate favourable consideration under section 16, or would you not feel that you could come under that?

The WITNESS: I do not believe we would come any more. We have been there, and Mr. Mansur will remember some of the discussions quite clearly.

By the Chairman:

Q. Mr. Staples, I am sure you don't want to give the impression that any doors are closed to you at Central Mortgage?—A. I don't know what it is if it is not a door, as far as section 16 is concerned.

Q. Section 16?—A. You are referring to section 16?

Mr. WEAVER: Yes.

By the Chairman:

Q. Well, section 16.—A. Don't get the impression that we are not well received when we talk about other sections. "Co-operation" is the word Father Marrocco used, and I subscribe 100 per cent to it.

Q. Let us be quite clear about it. Section 16 deals with low income rental units, doesn't it?—A. That is right.

Q. Isn't that your hurdle? We must face facts. That is your hurdle, section 16. What he is telling you, in effect, is that you do not qualify under section 16?—A. That is right.

Mr. MACEACHEN: What Mr. Weaver is asking is if a group of people would qualify.

The WITNESS: Mr. Chairman, I think it is a question of interpretation, mind you.

The CHAIRMAN: Mr. Weaver.

Mr. WEAVER: Perhaps I could ask the question in a different way. Mr. Stewart asked if all the members of a co-operative should qualify for a low rental house, and I believe Mr. Staples' answer was, "No". Do you not think that, to meet the spirit of the low-rental housing provisions under the Act, your answer to Mr. Stewart's question would have to be, "Yes", that all of them qualify?

The WITNESS: I do not remember Mr. Stewart's question in quite those terms. There is not any reason why members of a co-operative housing project cannot be drawn from people whose incomes are within a certain range, if that is the question you are asking.

The CHAIRMAN: No, it is not the question.

Mr. WEAVER: Have you ever come to Central Mortgage and Housing Corporation with a co-operative of which 100 per cent of the members did come in that range and did meet the provisions for the low interest rate?

The WITNESS: I think that perhaps Mr. Mansur should answer that question, as I am not familiar with all the approaches that have been made to C.M.H.C., and I do not know whether the question of the income of the members as of today was a controversial point or not, or whether consideration bore on the point of what was to happen if the members' income became more than a certain figure, say, six times the rent. I think perhaps the focus was upon that point rather than on their incomes as of the present date.

The CHAIRMAN: "Family of low income" is (13) of section two. It means "a family that receives a total family income that, in the opinion of the corporation, is insufficient to permit it to rent housing accommodation adequate for its needs at the current rental market in the area in which the family lives".

The WITNESS: If I remember Mr. Mansur correctly, Mr. Chairman, speaking here the other day, he said that under section 16 or a similar section the rental range was from something like \$20 a month to \$60 a month, maybe \$22 to \$58 or somewhere in there. Well, with \$60 a month, six times the rent would be \$360 a month, and we could accept that. We could find plenty of people who would be interested potentially in building houses co-operatively whose incomes are away below that figure.

The CHAIRMAN: Mr. Crestohl.

Mr. CRESTOHL: One of the questions I wanted to ask is with regard to the proposal by Father Marrocco—and I am very sympathetic to this problem of home building by co-operatives—I was interested in Mr. Weaver's questions as to whether or not representations were made to Mr. Mansur proposing this plan to make it feasible in the light of the changes now proposed in Bill 102, and what were the results of those negotiations. I might put another question, which will conclude what I have to say. I would be interested in seeing a proposal or an amendment or a project of some kind which Father Marrocco and Mr. Staples could suggest, that might enable this committee to examine such proposal and perhaps recommend it.

The WITNESS: In answer to the first question, Mr. Chairman, I think I might say I have a letter from Mr. Mansur, written only a week or so ago, which simply reiterates very clearly the policy of C.M.H.C. on this point. We appreciated the clear statement very much, and it said the present policy is that for National Housing Act purposes they will not recognize a co-operative as a limited dividend company unless, of course, the co-operative undertakes to rent the units to people who have no co-operative interest in the project. It is a very clear statement of the present interpretation of the section.

Mr. CRESTOHL: Have there been any attempts made to bridge this difference between Mr. Mansur's point of view and your point of view?

The CHAIRMAN: That is what the committee is for. We will consider it. You have it before you and you have it on the record. Mr. Stewart.

Mr. STEWART: I would like to ask Father Marrocco a couple of questions. Would it be a fair inference to take from the brief that your organizations, the co-operative organizations, consider it a social duty to help families to own their own homes through building them themselves and through co-operation? Would you agree?

Father MARROCCO: Yes.

Mr. STEWART: You seem to be succeeding in a modest, if not a spectacular way. You said later on in one of your answers that you had never received

any encouragement. Were you referring to any particular project when you said that? Were you thinking of the Lakeview Terrace project, or was there some other project you had in mind?

Father MARROCCO: You mean in the field of co-operative housing?

Mr. STEWART: With regard to going on with this scheme; I took it that you never received any encouragement from C.M.H.C.?

The CHAIRMAN: No, that should be corrected.

Father MARROCCO: The correction I would make is: I said previously that we received no encouragement to consider co-operative housing *as eligible under section 16*.

Mr. STEWART: Ah, that is different.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: My question is practically exactly the same as Mr. Crestohl's, but I want to repeat it, with perhaps a different result. I agree with him that it is most desirable that we should find out whether this group could not be included. On page 5 I read:

Though armed with facts like these,...

One of the facts was the calculation which brought the minimum annual income down to \$1,750 which means a lower income rate and a longer term in which to finance. And I read:

Though armed with facts like these, we have been unable to convince the authorities that co-operative housing projects fall within the provisions applicable to limited-dividend housing corporations as set out in section 16 of the bill.

I suggest that we are really not very clear yet as to exactly what happens, and that Mr. Mansur be asked to tell us. I think it would be a very good thing, from my point of view, if Mr. Mansur were asked to tell us about it. This is a very important matter, and I think that Mr. Crestohl has made a very important suggestion.

The CHAIRMAN: Mr. Mansur is prepared to give an answer.

Mr. MANSUR: Mr. Macdonnell, during the course of the discussion this afternoon there have been statements made several times that Central Mortgage and Housing Corporation is unwilling to qualify co-operative housing associations under section 16.

Section 16, I believe, contemplates units which are to be rented to families of low income. I think that is very clear in reading the definition and the section.

Now, a co-operative which has units for rental, if they use that technique, gives the occupant member of the co-operative a security of tenure irrespective of income level. Therefore, we feel that this is in conflict with the spirit and intent of section 16, in that units financed under section 16 should be rented to people within the income range contemplated by the statute.

Now, the second reason why we are unwilling to consider co-operative housing associations as qualifying under section 16 is that there is a beneficial home owner interest in co-operative housing notwithstanding the so-called lease, contrary to the wording and spirit and intent of section 16 which provides for rental housing to families of low income.

When Mr. Staples read the letter, he indicated our views. I may say that our views are not those of blocking that has been indicated here today. I think we have given a fair amount of co-operation in the co-operative housing field but in our opinion, on those two grounds we feel that co-operative

housing associations do not qualify under section 16, and I may say that is not only our belief. Because it did seem to be such an important matter we referred it to government to see whether government agreed with our interpretation; that it was not as harsh as it has been suggested here today and on two or three other occasions.

Mr. FLEMING: What were you told by government?

Mr. MANSUR: When we referred it to government, the government confirmed our view that our interpretation was correct.

The WITNESS: Mr. Chairman, if I gave the impression that we feel that Central Mortgage and Housing Corporation is blocking our efforts, then I hasten to correct it because I do not feel that way at all.

The question I was trying to answer at that time and perhaps doing it very inadequately referred to section 16 and the use of section 16 by co-operatives, which was very far from being applied to Central Mortgage and Housing's general efforts. They have been quite co-operative as Father Marrocco has said.

By Mr. Fleming:

Q. There is one suggestion I would like to make in the hope that it would assist the work of the committee. Today it is evident that if co-operative housing is to develop in the way it wishes to develop in respect to rural housing, then some amendment to the bill is required. I would like to suggest to the chairman that we ask if the co-operatives are willing to submit a particular amendment which they would like to have, because otherwise we may be left with some conjecture as to just what amendment may be required from their point of view. Of course we would have to consider whether amendments are desirable; but I think we should know precisely just what amendments are sought by the co-operatives.

The CHAIRMAN: Now, Mr. Tucker.

By Mr. Tucker:

Q. Mr. Chairman, I would like to ask a question arising out of Mr. Mansur's statement. We have Father Marrocco with us today. I understand that the provision for providing this money at very low interest rates is to make sure that housing may be made available to people who could not afford to pay the higher cost for housing, and that the attitude of Central Mortgage and Housing Corporation is this: that they could not get an undertaking from the co-operatives that if they rented to a member who was in a certain income group, and that perchance that member obtained an increased income, then he would have to be displaced so that somebody who was in a lower income group would be able to get that accommodation. Is it not possible that the cooperatives, in the face of such a fundamental objection, could not undertake that if their members who created that project, should come into the receipt of a higher income, that the accommodation would still be made available for the people for whom it was originally created, that is the people in the very low income brackets? Is it not possible for them to set up a cooperative association which would meet that objection?

Mr. Staples:

Well, Mr. Chairman, I have two comments on the question. In the first place, if I may be permitted to say so, I think it is a rather unsound principle with respect to the operation of the section from any standpoint. It does seem to me to be pretty undesirable that people who are tenants of these limited-dividend accommodations should have such a dampening influence applied to their ambitions. May I say that if their income reaches a certain level or

exceeds a particular level, in theory at least if perhaps not in practice as well, they would be expected to take themselves elsewhere. That sort of thing would not fit cooperative principles. That is quite true. But we would undertake to see that with respect to the original members incomes would be within the prescribed range and, if their incomes should rise beyond the required bracket, we would undertake by means of by-laws of the corporation, to confront a member with, let us say, alternative courses of action if he should get a raise in salary, and we would say to him: You may either move out of the accommodation or automatically assume an increase in rent which is in proportion to the salary which you are now making. In that way he would be contributing to the financial welfare of the cooperative in roughly the same proportion as the contributions being made by the other tenants. I feel sure there is a way to work through that problem if we set our minds to it.

The CHAIRMAN: I thank Mr. Staples and Father Marrocco on behalf of this committee and say that we are looking forward to some suggested amendments from them to section 16. You may send them to the chairman and I shall see that they reach the committee at the proper time. May I also say on behalf of the committee that we appreciate very much your presentation today, we are impressed with the evidence you have given us, and appreciate very much the leadership which Mr. Staples and Father Marrocco and others are giving to help towards the building of more homes for more Canadians. Thank you very much.

Canada - Banking and Commerce,
Standing Committee 207 (1954)

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

ON

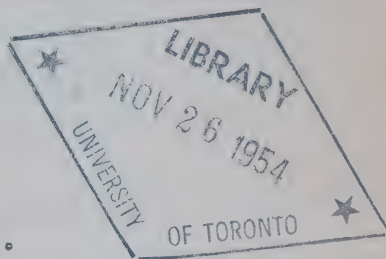
BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

BILL 102.



An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

THURSDAY, FEBRUARY 18, 1954

WITNESSES:

Mr. Graham Towers, Governor, Bank of Canada.

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation.

MINUTES OF PROCEEDINGS

Thursday, February 18, 1954

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaits, Arsenault, Ashbourne, Balcolm, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hees, Hellyer, Henderson, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, McIlraith, Mitchell (*London*), Monteith, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Mr. Graham Towers, Governor, Bank of Canada, Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Towers was called and examined on the financial aspects of the Bill under consideration.

During the course of the examination of Mr. Towers, Mr. Mansur was called upon to answer several questions specifically referred to him.

At 12.55 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. The Chairman, Mr. David A. Croll, presided.

Members present: Messrs. Adamson, Ashbourne, Balcolm, Benidickson, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hellyer, Henderson, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, McIlraith, Michener, Mitchell (*London*), Monteith, Philpott, Pouliot, Quelch, Robichaud, Bouleau, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Same as at the morning sitting.

The Committee resumed the examination of Mr. Towers, during the course of which Mr. Mansur was called upon to reply to certain questions specifically referred to him.

At 5.25 o'clock p.m., the examination of Mr. Towers being completed, he was retired, and the Committee adjourned to meet again at 11.00 o'clock a.m., Friday, February 19, 1954.

R. J. GRATRIX,
Clerk of the Committee

MINUTES OF EVIDENCE

FEBRUARY 18, 1954
11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. We have Mr. Graham Towers with us this morning as the first witness. I hope that you will be able to conclude your questioning before we adjourn at one o'clock. The first on my list is Mr. Quelch, Mr. Wood, Mr. Macdonnell, and Mr. Tucker.

Mr. FLEMING: Has Mr. Towers any statement to open with?

The CHAIRMAN: Mr. Towers has not a written statement to present this morning.

Mr. Graham Towers, Governor, Bank of Canada, called:

By Mr. Quelch:

Q. First of all, I would like to address a question to Mr. Towers that I presented to Mr. Mansur, namely, would Mr. Towers suggest that loans for housing would be largely limited to the extent that the banks convert loans and investments from other fields to housing, or would you, Mr. Towers, agree that funds for housing would also be augmented by an actual expansion of credit on the part of the chartered banks and possibly that such action should be regarded as the residual activity required to achieve the housing objective of Bill 102?—A. I think I can best try to answer that question, Mr. Chairman, by speaking of varying economic conditions. For example, if we are in a period when inflationary pressures are not present, and short of a new full-fledged war or another incident of the Korean type, I would think that the normal situation was one of no inflationary pressures. Under those circumstances it is the main job of the central bank to see to it that the chartered banks have sufficient cash reserves to respond to all sound and legitimate demands for credit made to them by their customers, of whom under this bill the prospective house owner or house builder would be one. Now, "sound" and "legitimate" are very vague terms, but in my language they mean that in the first instance the applicant for credit is able to put up a proposition which an individual bank considers safe and suitable, and, secondly, that the sum total of all demands for credit is not so great as to produce an inflationary situation; so that, in the economic circumstances which I have mentioned, I would expect that the over-all credit structure would be sufficiently large to permit the banks to make these mortgage loans without leaving them short in fulfilling the requirements of their other customers. It may well be that over the years the asset structure of the banks will be different from what it would have been if this bill did not pass. For example, five years from now, although one will never be able to prove it, the banks may hold somewhat less in the form of government bonds than they otherwise would and somewhat more in the form of mortgages, but I cannot see any prospect of existing customers of the banks finding life more difficult by reason of the banks lending on mortgages. If, however, one got into a fresh inflationary situation with bank credit expanding, it could be assumed that the central bank would do what it could to try to discourage too much expansion rather

than encourage it. Under such circumstances, of course, all classes of borrowers, whether borrowers on mortgage or commercial or otherwise, can find that it is difficult to get all the credit which they think they need.

Q. At the latter part of last year the chartered banks were short of cash reserves, were they not, to provide the reserves for making loans, and expanded their cash reserves by the sale of 24 millions of bonds to the Bank of Canada—is that right?—A. They were not feeling particularly short at the end of last year, but there have been various occasions since the outbreak of the affair in Korea and the inflationary pressures which resulted from that, there have been many occasions when the banks have felt short of cash and have had to reduce their government bond holdings to make room in part for the very big expansion in loans which has taken place. There has been an effort to exercise restraint in the expansion of credit, although that expansion has been very large.

Q. In a situation where unemployment was increasing and the scale of demand for loans was high in that case probably the expansion of credit would be justified?—A. Yes. I say "Yes" perhaps rather hastily. There may be certain pockets of unemployment, even although the rest of the country is booming, by reason of the difficulties of one industry. Monetary policy overall can hardly be determined by one case, naturally.

Q. I mentioned that in the first instance because there seems to be a certain amount of fear in some people's minds that, as a result of banks coming into the housing picture, it might mean they will curtail their loans to agriculture. You don't consider that that would necessarily be the case?—A. I certainly don't.

Q. I understand that last year the government—I forget the exact figure—put several millions of dollars into housing under the joint provision of N.H.A. Do you consider that the banks will be in a position to make up that deficiency and even go beyond that and make additional funds available for housing?—A. I should think that was likely, Mr. Quelch. Certainly over a period of years I believe it would be the case, but just what the picture will be in the transitional period I do not know.

Q. Could you explain just what the provision will be by which additional cash reserves will be made available by the Bank of Canada to chartered banks? Will it be in the form of the purchase of mortgage—or bans against?—A. It won't be in either form, Mr. Quelch. The Bank of Canada, in open market operations in government securities influences the amount of cash which the banks have. So if we add somewhat to our holdings of securities, as we have in recent times, that puts up bank cash.

Q. We were told that the main obstacle to the extension of housing at the present time is the lack of funds and serviced land. I take it that in so far as serviced land is concerned the question of funds comes in because in many cases, municipalities lack the funds with which to service land. What would you say is the average cost to the chartered banks of making loans on a percentage basis?—A. I have not got that in my head, Mr. Quelch.

Q. You gave us figures in 1939 and again in 1944. Would you say that since then the cost has increased or, as the result of the increased volume of business, it has become reduced, or would you say that the cost would be approximately the same?—A. I would have to check up on that, because I have not got the figures in my head.

Q. By what procedure does the Bank of Canada influence interest rates?—A. If the demand for credit is relatively heavy, if the circumstances are such that the Bank of Canada is trying to resist an undue increase in credit,

trying to hold down the banks' cash reserves, well, naturally, that tends to influence the interest rates under the general operations of demand and supply.

It may tend to have a more immediate influence on interest rates in the general market for securities than it would tend to have an influence on the bank loan rate. But heavy demand in relation to supply is what tends to put up rates.

Q. Would it be fair to say that the policy of the Bank of Canada during the past few years has been to influence interest rates upwards?—A. That is not deliberate objective. Our objective is rather one of trying to make it somewhat more difficult to borrow at a time when potential demands outrun the physical ability to fulfill them in the form of labour and materials, which was the situation we have experienced on various occasions since the war.

So, in trying to moderate that demand, we make it somewhat more difficult to borrow. A by-product is an upward move in interest rates, but it is the moderation of borrowing rather than the price which is our principal objective.

Q. We have heard a lot of talk to the effect that we have priced ourselves out of world markets. I have heard that statement in the house. I see the chairman nodding his head, but I am leading up to a point which I think you will agree has to do with this matter. Interest rates in part, directly or indirectly, are bound to affect costs and in so far as housing is concerned, if interest rates are high, it has a tendency to increase the amount of monthly payments which the borrower must make, and it means that he has to divert a greater part of his income to meet those costs. It may be that one effect is to cause the labourer to ask for an increase in wages which of course is bound to affect the cost again. I wonder if you have any suggestions by which loans could be made available for housing at a lower rate of interest in order to meet the needs of the people in the lower income brackets who apparently are not able to build houses under the Act as presently constituted.—A. I can think of no way except a subsidy in some form.

Q. Would it be a subsidy directly to the purchaser, or a subsidy to the financial institutions which are providing the funds?—A. I do not know. I suppose it would be directly.

Q. You say it would be directly. Now I would like to put forward a suggestion if the chairman will permit, just to get your reaction, Mr. Towers. If we should amend the Bank of Canada Act and the Chartered Banks Act in order to increase their cash reserve requirements from 5 per cent to 10 per cent, and it be required that reserve be held by the chartered banks in the form of Bank of Canada notes and not as deposits in the Bank of Canada as at present, and the then existing deposits of the chartered banks held by the Bank of Canada be transferred to the chartered banks in the form of bank notes so that they would hold their 10 per cent cash reserves in the form of bank notes, would there be any objection to the Bank of Canada making loans to municipalities of, let us say, \$100 million at a rate of interest comparable to the actual cost to the chartered banks of handling their deposit accounts? And then the municipalities could deposit those cheques with the chartered banks and the chartered banks could present those cheques to the Bank of Canada and only receive 10 per cent in notes in order to provide the 10 per cent cash reserves against deposits arising out of the depositing of those cheques, and the balance of the 90 per cent to be credited to the account of the chartered banks in the Bank of Canada, and the interest that was paid by the municipality to the Bank of Canada would then be credited to the chartered banks in which the cheque had been deposited. In that way we would not be taxing the banks, and they would be receiving a rate of interest equivalent to their costs. At least they would be recovering the

cost arising out of the handling of the deposits resulting from that payment. That would provide money to the municipalities at a considerably lower rate of interest, and the lending could be directed to the points in Canada where that money was most urgently needed.

Would you consider that to be a subsidy? And if so, it would be a subsidy on the part of the government, because the only body that would suffer would be the government as a result of the amount of the profits transferred from the Bank of Canada to the General Revenue Fund being decreased, while the chartered banks would receive what it cost them to handle the accounts arising from the transaction instead of getting a higher rate of interest.—A. I am sorry, Mr. Quelch, but I cannot follow through all the transactions you mention. However, my impression is that the general effect would be, to start off with, an interest-free loan from the banks to the government or to the Bank of Canada. The chartered banks cash reserves are normally determined by no other principle than general banking policy; and if they are raised beyond what that would call for, then the effect is one of an interest-free loan from the banks to, let us say, the Bank of Canada. For my own part, if that was going to take place, I would prefer that they made it to the government. It becomes a sort of tax on the banks as a contribution to subsidizing the loans which you mention.

Q. You agree though that the net result would be to secure money at a lower rate of interest for municipalities without actually placing any burden on either banks or individuals?—A. That would be miraculous. I think the subsidy is there, and it is just a question of who pays the shot.

Q. If that policy were established, then the chartered banks would be paid for handling the deposits at the cost of handling them.—A. I think it would result that they would carry higher cash reserves than they normally would.

Q. No. They would be required to hold their cash reserves at the level which is required at the present time, not any higher than is the general practice today which is to hold 10 per cent in cash reserves, only it would be done as a matter of law rather than as a matter of practice. A. Then, I do not see where the additional funds come from which the Bank of Canada is supposed to lend the municipalities if they are not going to hold higher cash reserves than they normally do now.

Q. The funds would come from the Bank of Canada, not from the chartered banks.—A. I thought that the counterpart of those loans, so far as the Bank of Canada is concerned, would be a higher note issue due to the banks carrying larger cash reserves than they now do.

Q. A higher reserve in notes instead of deposits with Bank of Canada. Are not their deposits in the Bank of Canada considered cash?—A. Yes.

Q. There would be no change then in the amount of their cash reserves.—A. Then the Bank of Canada has no additional resources for lending as compared with our situation now.

Q. That, of course, could be provided for by the government depositing certificates with the Bank of Canada.—A. In other words, we would increase our assets by the additional loans, having the effect of increasing the bank's cash reserves—

Q. Bank of Canada.—A. —whether it was necessary in the general interest of the economy or not.

Q. Whether it is necessary would depend on whether the people of Canada thought it was necessary and desirable to make houses available to people not able to build at the present time?—A. I think that it would be better if the government did that direct rather than get the Bank of Canada mixed up in it because our main duty should be to follow a monetary policy which seems to be in the best interests of the whole economy, leaving it to government or someone else to deal with the housing question direct.

Q. You mean that the government in that case would borrow from the chartered banks rather than through the Bank of Canada—A. Or it might borrow from the public, or the chartered banks, or the Bank of Canada.

Mr. PHILPOTT: Why borrow at all when we always have surpluses?

By Mr. Quelch:

Q. What directives, if any, are issued by the Bank of Canada to the chartered banks regarding loan policy? Are there any directives at all?—A. There are no directives, because the Bank of Canada has no power to issue directives, but there have been various occasions over the years when we have asked the banks to come together for discussion over policies. The last major occasion was at the very beginning of 1951. In the preceding six months' period the expansion of bank credit had been very substantial indeed and looked as if it was keeping up at too fast a pace. We discussed that with the banks and suggested that we should have an understanding or an agreement that they would do their utmost to see that their over-all outstanding credit did not increase from that time forward until the thing came to an end. Well, one cannot, of course, turn off a tap too suddenly. Credit did increase somewhat after January 1951 for a few months, but the situation then got into better control and something over a year after we first discussed the thing the ceiling had been maintained. When the situation became less extreme in the spring of 1952 we suggested to the banks that the agreement could be wound up, and from there on in we had to depend on the normal central banking system.

Q. To control their reserves, chiefly?—A. Yes.

The CHAIRMAN: Gentlemen, I will ask you to direct your questions to the housing aspects of this bill.

Mr. Wood, you are next.

By Mr. Wood:

Q. Mr. Chairman, I will be brief. I would like to ask Mr. Towers if and when this bill is passed what effect it will have on shorter loans to farmers? I have in mind particularly the Farm Improvement Act which was passed a few years ago which allows our farmers to borrow money at 5 per cent interest?—A. I would not expect it would have any adverse effect on the extension of credit under the Farm Improvement Loans Act. Otherwise one would have to assume that there was generally a very tight situation where the banks were not able to respond to all the legitimate demands made on them and would favour mortgages under this bill at the expense of doing less in other directions. I do not believe that that will be the case, certainly not under non-inflationary conditions. I believe, as I said before, that the banks will be able to respond to all their customers' legitimate demands.

Q. I am glad to hear that. I understand that the interest rate under this Act will be raised to approximately 5½ per cent. I would like to draw your attention to the fact that the rate of interest under the Farm Improvement Act is 5 per cent, and I was wondering if that would make money more available for housing than for agriculture. Would money be as free in the future for agricultural purposes because this Act over the years, I understand, has allowed farmers to build in the neighbourhood of \$100 million, and in my experience with the banks in the west they look very favourably on this Act and it has been very useful to the farmers. I would not like to see it come about that money might not be so free for this purpose.—A. I do not believe for a moment it will. Banks like to have a diversity of business, some of it at lower rates than others, and I would think they would want to keep a balance in that respect and cover the requirements of the farmers under that Act.

Q. You do not think that that rate of 5 per cent will be a detriment?—

A. Not unless there was some other reason for it.

The CHAIRMAN: Gentlemen, I have heard suggestions that $5\frac{3}{4}$ per cent is likely to be the interest rate under this bill. The suggestion came from the Dominion Mortgage and Investments Associations, Mr. Bryden their spokesman suggested that $5\frac{3}{4}$ would bring ample funds. I have not heard it from the minister, his deputy, or the government. I do not believe it will be $5\frac{3}{4}$, and I do not think that the committee should assume that it will be $5\frac{3}{4}$ per cent.

Mr. FLEMING: It was never denied.

The CHAIRMAN: It may just as well be $5\frac{1}{2}$ or $5\frac{1}{4}$ as $5\frac{3}{4}$. We do not know.

Mr. TUCKER: A little bit below six. Everybody agrees that the cost of doing business, roughly, in this loaning business is around 2 per cent or a little over so that your long-term cost is around $3\frac{1}{2}$ per cent and what you must charge is $5\frac{1}{2}$ per cent.

The CHAIRMAN: Either the chairman is going to be very disappointed or members of this committee are going to be disappointed. If the interest rate is fixed at $5\frac{3}{4}$ per cent it will be a shock to me. I do not think we should assume that the rate will be $5\frac{3}{4}$ %.

Mr. TUCKER: Mr. Chairman, have you got me on the list?

The CHAIRMAN: Yes, Mr. Macdonnell?

By Mr. Macdonnell:

Q. Mr. Towers, my first question really relates in a way to Mr. Quelch's first question, and that is whether it will be possible as things are now in the banking world, for the chartered banks to make substantial loans under the new Housing Act without needing to have recourse to the central bank to create additional credit. It has been somewhat freely stated in certain banking quarters that that was necessary. I understand your answer to be that in the present situation, which you consider not one of inflation, you see no reason to believe that the banks could not in the ordinary course of business, find the amounts which are necessary for a term of years. You did not specify actual figures but I gathered that that was your answer.

Now, I want to go a little further to the question liquidity which has almost disappeared out of our vocabulary because we have not had anything that looks like that kind of difficulty for so many years. Now, it was stated in the government's first announcement of this that it was supposed to make secured mortgages eligible security for Bank of Canada advances in the same way as government bonds. The suggestion there appears to be that provided there is a government guarantee then you do not need to look behind that at all and that these new guaranteed mortgages will be regarded in the same way as victory bonds.

We had here the day before yesterday Mr. Bryden of the Dominion Mortgage and Investments Association who pointed out certain, what I might call, "catches" in the guarantee, certain possibilities which could arise. I think you are probably as familiar with them as I am. He set them out: there is the necessity of enforcing the security before you are eligible for the guarantee; there is the possibility of legal difficulty; there is the possibility of provincial moratorium if, in fact, provincial moratorium can affect dominion government legislation. There is also, of course, the fact that the guarantee mentioned is only 98 per cent, and other things, but my question is this: first of all, is it a matter of indifference to the Bank of Canada provided there is this guarantee, limited in some way as I have indicated; would it make a guaranteed mortgage, in the eyes of the Bank of Canada, just the same as a government bond?

One further question before you answer. I would have supposed that having regard to the very strict provisions of section 18 of the Bank of Canada Act affecting your investments, you would be interested in the intrinsic nature of the investment itself, and not wholly interested in the fact that it did contain a somewhat limited government guarantee. That is a rather complicated question. I hope I have made myself clear—A. I think, Mr. Chairman, that the reason that an amendment is proposed making these mortgages eligible collateral for loans from the Bank of Canada by the chartered banks was that it was not desired to place any black mark on these insured mortgages. The banks can borrow from the Bank of Canada on the security of government bonds and a number of other things, and it was desired not to exclude the insured mortgages. Actually, I do not believe that the borrowing policy of the banks or the lending policy of the Bank of Canada will be changed in any way by this amendment. While they would be able to put up mortgages as security, I am much more inclined to think that when they have occasion to borrow for temporary periods they would continue to do so by pledging government bonds, but at least there is no black mark on the mortgages from that point of view.

Q. I appreciate that answer. That seems to be very convincing that they would use their highest—A. And the most convenient, really.

Q. Yes, and the most convenient. We are talking now about six-month loans under section 18-(i). Is that the way the business is done? You are limited to six months?—A. Yes, I cannot remember; perhaps there is one renewal. We never have had a loan for as long as that.

Q. In other words, if the banks need to come to you—and the only point in our having this discussion at all is that we might run into a situation where things are not as smooth as they are now, that is the only reason we are anxious to consider these things, my point is this—

Mr. CANNON: Section 18?

Mr. MACDONNELL: Section 18, subsection xx (i).

By Mr. Macdonnell:

Q. I come back to the question of the loan. I want to know the exact position of the chartered banks. It is perhaps a coincidence that at this time there has been a discussion in the newspapers about tightening the reserve requirements of the banks, which I understand now in working terms are 10 per cent, although the statute states only 5 per cent, am I correct in that?—A. Yes.

Q. Perhaps you will say something about the question of reserve, but what I come back to is this: supposing we got to the stage where the chartered banks in their deposits with the central bank had as a matter of course some of these mortgages, how would the central bank regard this? Would they regard this as the exact equivalent of government bonds, or would it be a matter of interest to you if there was a drop in the real estate market and it was known that a number of these loans were not in good standing, would that be a matter about which the central bank would be concerned? Would it affect their judgment of the situation? Would they have to look beyond the guarantee to the intrinsic value of these deposited mortgages, assuming we got to the stage when they were needed, when other more usual securities were not available?—A. Our first concern is with the solvency of the obligant, who is the bank. The second concern is for the security, but assuming that we are completely satisfied on the first point, then either government bonds or mortgages are equal in our eyes. If there was any reason to be worried about the solvency of the borrower then that, of course, takes us into another chapter.

Q. First of all, I take it that when you use the word "solvency" of the chartered bank, that includes by implication the word "liquidity"?—A. No, I meant it in terms of solvency.

Q. You would be interested in their liquidity too?—A. Yes.

Q. Then, in that event and in the event of our reaching a time when we are not just travelling along in easy times, but that we have reached the stage when liquidity means something, and when the banks may not be rolling in resources available for them, then as I understand it a new consideration would arise in your mind. If you were at all troubled about the position of any bank, you would then feel that you had to concern yourself about the intrinsic value of the mortgages apart from the guarantee?—A. The inspector general and the government, of course, would be concerned with the solvency of any individual institution, but in thinking of the banks borrowing from us as a group, we must have some notion about the economic situation of the time. If the period was not inflationary then I would not think that the banking system as a whole would have any occasion to borrow from the Bank of Canada on the security of bonds or anything else except for very temporary periods. That relates to the banking system as a whole. There could be circumstances in which an individual bank had gone rather further than the average in extending credit and found itself in a somewhat tight liquid position, even although the banking system as a whole was in a perfectly easy liquid position.

Q. And yet, in spite of what you said as to the unlikelihood of any tight situation arising, the press informs us that at the present time you are considering stiffening up the reserves. Is that a fair statement by the press?—A. That I could not say. I suppose if there is any truth in it the minister would bring that before the House at the appropriate time.

Mr. MACDONNELL: I realize that you must be the judge of the answer you would give, and if you do not want to answer that question perhaps I should not ask it.

The CHAIRMAN: It is not that he does not wish to answer the question. He has given a quite proper answer to it.

Mr. MACDONNELL: I will just say that I am disappointed. I think this is the first witness that has felt it necessary to give us what I would call a very charming brush-off.

Some Hon. MEMBER: No.

The CHAIRMAN: No.

Mr. MACDONNELL: I am told that I asked about pending legislation; that was not my intention. I thought it was a matter of practice. I thought that, as the 10 percent practice had not been strictly followed, while only five per cent is required, this was not a matter of legislation. I would not have asked about that, but I thought it was a matter of practice; however, the Governor has answered.

The WITNESS: The newspaper suggestion was that there would be an amendment to the Act.

The CHAIRMAN: I think your term of "brush-off" to that answer is not your customary language.

Mr. MACDONNELL: Then it may be stricken from the record, in view of what Mr. Towers said about legislation, I should not have asked that question.

The WITNESS: I was just saving my skin, Mr. Chairman.

By Mr. Macdonnell:

Q. One other thing. You could perhaps tell us the situation in the United States, where I understand a market has been made for mortgages like this in circumstances which, I believe, are substantially different. My question is: It has been suggested to me that in a very short time these mortgages will become negotiable and will be passed almost from hand to hand, very much as government bonds are. My question is, going back to what you said a

moment or two ago, that if in fact you became concerned about the position of a bank, you would then have to concern yourself with the intrinsic value of the mortgages and look beyond the guarantee. I found that—if I have stated you correctly, and I hope I have—a little surprising, because it seemed to me that you were at one stage regarding a government guarantee as absolutely the only thing you were interested in, but at another stage you were going to look beyond it to the intrinsic value of the mortgage which is guaranteed by the government.—A. Well, then, I conveyed a misunderstanding. What I really meant to say was that in the first instance we look to the obligant, who is the bank, and only if we saw difficulties approaching would we have great concern with the security, no matter what it might be, government bonds, mortgages, customers' notes, or whatever.

Q. Here is another question, Mr. Chairman. It may be on the borderline, and if it is you will rule it out. Would it be your expectation that, included among your powers of investment under section 18 of the Bank Act, which I observe are very carefully spelled out—you are restricted very much in the same way as lesser folk are restricted, would it be your understanding that there would be an express provision in here that you could acquire these securities?—A. No, that is not my understanding. We could accept them as collateral, but not acquire them. There is a provision in our Act that says that if we have to realize on collateral we can do so legally, but that is rather different from acquiring it in the first place.

Q. Would that be the only place where you have the power to lend but not to purchase?—A. No, because there are many things which we can lend on, so far as the banks are concerned, bills of exchange or customers' notes, a number of things of that kind, but we have no power to purchase, because our power to purchase is limited to government of Canada and provincial bonds, gold, foreign exchange, and debentures of the Industrial Development Bank. That is the sum total of our powers, as I recall them.

Q. One last question, and that is with regard to the liquidity. We have had an almost sinful pride among government bank circles in Canada for many years that they did not invest in mortgages and thereby they were made more liquid and for that reason we could not be shaken in 1932, when the American banks went down.

Mr. MACDONNELL: You will no doubt know more about that. I just wanted to pursue that question a little more. We are now at the beginning of this and, of course, the very suggestion that reserve requirements are going to be stiffened, or may be stiffened, indicates the question of solvency and liquidity, though we have not been accustomed even to consider them in connection with our chartered banks for many years. Now, would it be your idea that the power of the banks to lend on mortgages should be wide open? Would that be a matter which you would concern yourself with? Supposing you found a bank going very deep into this form of security, would that be the kind of thing that you, with your very effective persuasive power in the Bank of Canada, would bring to the attention of the bank or banks concerned?

Mr. CANNON: Mr. Chairman, on a point of order, I think that the argument here, or the line of questioning, has gotten far away from housing. After all, the amendments to the Bank Act itself are going to come before this committee at a later date, and I think we ought to keep something for that. I think the matter of the banks lending on mortgages and how they should lend on mortgages, and how that will affect the liquid situation of their assets, is a matter that should be discussed when we examine the workings of the Bank Act.

Mr. FLEMING: It is definitely relevant to this subject.

Mr. MACDONNELL: I usually find myself in agreement with my friend Mr. Cannon, but this time I cannot. If I remember rightly, the clause in the present bill before us is a very wide open clause, and it seems to me that if the bill is passed in this form we have done a very great deal to open the door to wide open lending.

The CHAIRMAN: Clause 3.

Mr. MACDONNELL: Clause 3 says:

Notwithstanding any restrictions on its power to lend or invest money contained in any other statute or law, any approved lender subject to the jurisdiction of parliament may—

One of the things they may do is make these loans. I suggest very pointedly that if we pass that section we are concerned right here and now with what is being done, because we are making a vital, almost unprecedented, change in the Bank Act. I do not see how we can say, "Well, that will be dealt with there", because we are dealing with it here.

The WITNESS: Of course, as the committee knows, our banks in Canada are not only commercial banks, they are also savings banks, and the main repository of the savings of the people. As has been explained on earlier occasions in connection with this bill, it is normal in other countries for savings banks to be allowed to lend a portion of their funds in mortgages. It would be possible, of course, in this bill to say that the banks should not hold insured mortgages representing more than a certain percentage of the personal savings deposits which they hold, but, just speaking for myself, I would think it is much better not to legislate in too much detail in these things, leaving it to the business judgment of the people who are concerned.

While I would like to steer clear carefully of any expression of view as to how high a percentage of savings deposits the banks might want to place in insured mortgages, I feel that it is likely to be a fairly modest percentage. If you asked me to define "modest", I would prefer to dodge the question, but obviously it would not be 50 per cent and I do not think it would be 25 per cent. If I am right in that view then, the investment in these longer term obligations, of a moderate percentage of savings deposits, would not in my opinion impair the liquidity of the banks.

The CHAIRMAN: Now, Mr. Tucker.

By Mr. Macdonnell:

Q. Oh, Mr. Chairman, just one moment, if you please. My opinion is very similar to yours, Mr. Towers. I usually do not like rigid requirements. I am interested in what you said, but I still think that this bill so radically affects the position that we should not regard this point as something to be lightly left over to the revision of the other Acts. One other thing I want to ask you about is this: you explained that the operation of the Bank of Canada loan was six months and you said it was possible to have an extension in some cases. Mr. Towers has explained that to us; and that the ordinary transactions of the Bank of Canada with the chartered banks was for a period of six months, or a bit longer from the Bank of Canada, covered by security. And there is the matter of the guarantee as well. Now I ask you if in fact you have got to the stage when you would deal in these mortgages and sell them in the open market just as you would government bonds. Do you think it is likely or have you considered this question; whether it is likely that these mortgages will become easily transferable and saleable securities themselves in the market?

It was pointed out to me by an approved lender the other day that it is going to be a very complicated matter to work out the accounting with respect to principal, taxes, interest payments and so on, and that if he were going to transfer mortgages and sell them to another party, it would be very difficult

and complicated to find out just what was the principal and interest and so on. How do you regard it? Is there any doubt that there will be a ready market for these mortgages?—A. I do not think that the banks could not sell in quantity in a hurry; I would not think that was possible.

Q. Not even with the government guarantee?—A. No, if the bank desires ready cash in a hurry, I do not think that would be the practical way of going about it. But on the other hand, I would hope that over the years a fair interest would develop in these mortgages which, as you know, have to be serviced by an approved lender, and that they will, over the years, attract funds from outside sources such as pension funds and other funds of that kind so that there will be an effect of the whole mortgage market not only by the entrance of banks into it but by the entrance of others. That I hope will be a result of the process.

The CHAIRMAN: I have quite a list. After Mr. Tucker, I have some 12 names so I would like to keep it in mind and just not be too long. Mr. Tucker.

The WITNESS: I am remaining seated while answering the questions. Is that all right, Mr. Chairman.

The CHAIRMAN: That's fine.

By Mr. Tucker:

Q. I am very glad to see Mr. Towers here again and looking so well. It reminds me of old times.

What I was anxious to have from you, Mr. Towers, was more or less some sort of statement in regard to the situation as it faces us today.

We are told that under the new scheme in the housing field we are going to meet the housing requirements. We have been told by representatives of the people in that field today that we cannot look for any great increase in the rate of lending by those institutions, and that the pace at which they have been increasing in their loans in that field will slow up in the future. Therefore, as I understand it, in order to get the increased amount of money required for housing, the thought was to have the banks enter the field and loan money on mortgages given by people who are building homes.

You mentioned that as to the existing institutions the banks would have the right of lending to those institutions but I understand that it is contemplated that the bankers will also lend money directly to the people who decide to build homes; and the thought is that that is where we will get new money. Now it is also believed, as I understand it, that ordinary lending institutions require from 2 to $2\frac{1}{2}$ per cent over the cost of money to them to do business and that the cost of their money to them has risen, so the provision in the bill is that the rate charged by them on ordinary transactions shall not be more than $2\frac{1}{4}$ per cent over the cost of the money.

Now then it seems to me that that raises a problem of which there are two or three things I particularly want to bring to your attention. First if you have to go to the bank to get your new money, you are bringing them into the long term lending field and you have to give them a rate of interest which will enable other people to do business in that field. So that is where the rate of $5\frac{3}{4}$ per cent comes in.

The first difficulty about that as I see it is this: I may be wrong about it, but we have been told that under the present administration of the Act you pay $5\frac{3}{4}$ per cent to the private lenders. Now the home builder would have to have a good financial position to take on a mortgage such as that—he would have to make a down payment of \$2,400 and have an annual income of over \$3,600. But most of our people are below that income group so it will not

help the average individual. That is the first difficulty as I see it, Mr. Towers. the second question is the cost of long term money.

Mr. BENEDICKSON: Mr. Chairman, I am sorry but we cannot hear Mr. Tucker at this end of the room.

By Mr. Tucker:

Q. I am sorry. I shall try to speak more loudly. My point is this Mr. Towers. I suggest that the monetary policy should be so directed that any move such as this should increase the power of the average person to pay for a home of his own. I suggest the easy money policy adopted in 1935 was designed to bring all interest rates down to a level which he could carry, and I notice here in Hansard that the Hon. Mr. Dunning in introducing the Central Mortgage Bank Act in 1939 said it would reduce interest rates and it was desired to bring lower rates into the field of long-term loans. At that time the cost of long-term money at the prevailing rate was about $6\frac{1}{2}$ per cent and by the provision at that time setting up the Central Mortgage Bank giving companies the right to re-discount at the Central Mortgage Bank, it was provided that they would get money at a low enough rate even if it did cost them 2 per cent to do business that they could re-loan at $5\frac{1}{2}$ per cent. In other words the purpose of the Central Mortgage Bank was to cut the interest rate down by one per cent on the average. It seems to me that we were taking advantage of Central Bank machinery to cut down the cost of money to people so that they could get along under our economy. Thirdly I would like to deal with this point, and incidentally raise again the question which I think my friend Mr. Wood raised. If you give the banks the idea they have a right to collect $5\frac{3}{4}$ per cent on long-term mortgages which have been carefully supervised by Central Mortgage and Housing and guaranteed to the extent of 98 per cent of principal by the government, is that not going to affect their attitude as to what they are entitled to when the average entrepreneur wants to borrow money to expand his business—are they going to figure it is right that he should get money at $4\frac{1}{2}$ per cent or less?

The CHAIRMAN: Mr. Tucker, will you—

Mr. TUCKER: I am going to ask Mr. Towers afterwards to deal at one time with these points, perhaps when he is back tomorrow.

The CHAIRMAN: It is not intended to have Mr. Towers back tomorrow.

Mr. TUCKER: I consider it an important enough question that I would like to have from Mr. Towers a statement containing what he is prepared to answer on these questions because I think we will get a better statement if he is permitted to prepare it and submit it to the committee. With all deference, I think it would save time that way.

I am laying the foundation and then I will ask the questions. Surely I will be permitted to do this in a way where I think we will get an intelligible response from one of the most outstanding authorities on this subject on the American continent. This man is not a police court witness and we can get a better statement if he is permitted to give it as a whole rather than bit by bit in answer to questions. I ask that I be allowed to develop the problem for consideration of Mr. Towers.

I was speaking of one aspect, the effect on other loans, the effect on the psychology of the banks, and the effect, as my friend said, on borrowing money for such things as farm improvement.

Now, these are problems that arise by taking the banks into this field. What I wanted to ask Mr. Towers was this: first of all, it was said in 1939 by the experts of that time before the Banking and Commerce Committee, that there was a shortage of money for long-term loans, that the interest rates were too high, and therefore they suggested the establishment of the

Central Mortgage Bank where these existing institutions could go and pledge their existing assets to the extent of their face value and get so-called new money at the going rate for long-term government securities and the new money which they so received they should loan at no higher rate than $5\frac{1}{2}$ per cent. It was said at that time that it was expected that would provide all the new money needed and was going to reduce the average mortgage rate by one per cent. It strikes me that today we are in the same position. The going rate is $6\frac{1}{2}$ per cent. We need new money and cannot get it from the existing institutions, but now we are proposing to go to the banks instead of giving the existing institutions, the right to get new money from the Central Mortgage Bank.

What I want to ask Mr. Towers is this: why do we not try the machinery that was set up in 1939 to get the new money and get it under such a system where we could hope to reduce the cost of money to people who want to build to the level the average person who hoped to get a loan could pay?—A. Mr. Chairman, I, of course, have no knowledge of the virtue of a rate such as Mr. Tucker has mentioned, but turning first of all to Central Mortgage Bank, as a number here will remember, one of the major problems which it was set up to deal with was that of the farm mortgages in the west. It also was to go into what you might call the new field and there the Central Mortgage Bank was given certain powers to advance money to member companies. It was not expected that the insurance companies would be borrowers. What that authority was intended for was to try to improve the situation of other companies such as trust and loan companies by making their mortgages a bit more liquid through being possible to borrow from the Central Mortgage Bank. I cannot remember, as I have not the Act here, how much money the Central Mortgage Bank was empowered to lend in that way to companies who were making—I am reading from the statement here—"were making long-term mortgages, at not more than 60 per cent of the value of the security bearing interest at not more than 2 per cent above the rate of long-term government bonds." It was not expected that the amounts involved, I think, in that feature of the thing would be extremely large but that they might be helpful. It seems to me that Central Mortgage and Housing has powers in that respect very similar to those which were given to the Central Mortgage Bank. Perhaps Mr. Mansur will correct me if I am wrong. It has the power to buy these mortgages or to make loans on them.

Q. As I understood from Mr. Mansur it was necessary to get new money and to get this money in 1939 we set up the Central Mortgage Bank to provide such new money?—A. Excuse me, but the Central Mortgage Bank would have had to borrow money to do these operations.

Q. They had capital.—A. From the government, just the same way as Central Mortgage. There is really no difference in that respect.

Q. Then, why does not Central Mortgage and Housing use these powers? Apparently the government was prepared to have the Central Mortgage Bank use these powers because Dr. Clark said in his evidence that this was going to provide all the new money required. Now, if the Central Mortgage Bank had only the same powers given to Central Mortgage and Housing why does Mr. Mansur come before us and say they need new money to go into this field. There is no doubt it could have been provided under the Central Mortgage Bank Act, because it was stated that was the purpose of the Act.—A. I think it was contemplated under the Central Mortgage Bank, although we are dealing with intangibles here, that the amounts involved would not be very large, but by making mortgages more liquid would enable others to do better business in that field.

Q. They could borrow to the extent of the mortgages they held and it was contemplated that they would do so for re-loan purposes to bring down

the rate of interest.—A. There were really two parts to it. One was the old adjusted mortgages and there the Central Mortgage Bank had to borrow the money. You will recall that that was a very special situation.

The other part of the Act is the one that more nearly resembles the situation as it is today, and there Central Mortgage was given certain powers to make loans but it was not, I think, contemplated that these loans which would have to be provided from government sources would be of any vast magnitude.

Q. But, Mr. Towers, it was suggested in all the debates in the House in 1939, which I have here, that this was going to operate to bring down interest rates because they would get their money from this Central Mortgage Bank at a lower rate than they got their money ordinarily and it would cost them 2 per cent to do business leading to a rate of $5\frac{1}{2}$ per cent which would have a levelling effect on the cost of interest.—A. I think it would have.

Q. Yes. Now, then it was contemplated that although \$200 million was appropriated to begin, that it was just the beginning and that if this operated to enable plenty of new money to be provided at lower rates of interest, there was nothing to prevent further capital being appropriated by parliament?—A. It will be recalled that because of the circumstances of the time, government long term interest rates were lower than they are now.

Q. I suggest that is all the more reason why we should do something definite to bring down the cost of interest to people who want to own their own homes, and it is not enough to simply take the attitude we do now that we cannot do anything more about the situation except bring the banks in and give them almost the maximum rate we can under the Bank Act. What I cannot understand is this: if it were thought possible in 1939 for these mortgage companies and loan companies to take care of a tremendous increase and demand for mortgage money at lower rates of interest, then why don't we use that technique now before we drag the banks into this thing with all the complication that involves?—A. What I think you are contemplating there, Mr. Tucker, was that the government was going to provide a very substantial portion of the funds put out on new mortgages. The government has been providing a lot of money through Central Mortgage and Housing. If parliament so decided they could continue to do that on an ever-increasing scale, but if that is not considered desirable some other lenders should be added to those who can make mortgage loans. It is really a question of whether the government should do it in very large volume, or should someone else? That, of course, is something that I cannot properly express an opinion on.

Q. It appears to me that Mr. Mansur is the man whose business is the answering of questions relating to housing and that sort of thing. You say that he has the powers that were given to the Central Mortgage Bank of which you were going to be the chief officer?—That was an accident.

Q. I think it was a good idea. In any event, you would be interested in the whole question of the extent to which you should go in assisting these existing institutions to put out more money at lower rates of interest. That is your field—banking. Mr. Mansur's field is housing. What I cannot understand is this: if we gave Central Mortgage and Housing these powers why shouldn't we come to Mr. Mansur and expect his organization to put out the necessary new money at lower rates of interest?—A. I do think these questions come very much into the field of Central Mortgage and Housing. The only constructive thing that the management of the defunct Central Mortgage Bank did was to secure the services of Mr. Mansur. Perhaps he would answer the question.

Q. Could you tell me, as chief officer of the bank, Mr. Towers, if it was not brought into the operation, not because I take it you didn't think it would

be feasible to do the things the government expected at the time, but because the war intervened almost at once after the setting up of it? When we were asked to pass this bill in 1939 and told certain benefits would be expected to flow from it, the government was acting on the very best advice, including yourself. Why is it different now from then? That is what I would like to find out?—A. Perhaps I am not sufficiently acquainted with the powers of Central Mortgage, but I do not think it is different now. I do not think their powers are very different. Perhaps Mr. Mansur would answer that?

Mr. MANSUR: That is correct, Mr. Towers. In fact the powers are, I think, wider than those contained in the Central Mortgage Bank Act.

Mr. TUCKER: What is that, Mr. Mansur?

Mr. MANSUR: I think that under section 29 of the Central Mortgage and Housing Corporation Bank Act, and section 11 of Bill 102, our powers will be rather wider than those contained in the Central Mortgage Bank Act.

Mr. TUCKER: Well then, the question that arises, Mr. Mansur, is this: when it was said in 1939 that new money was so urgently required, we were told that the Central Mortgage Bank was to provide it. Why don't you provide it now, if you have the power to do so?

Mr. MANSUR: Mr. Tucker, the Chairman indicated at an earlier meeting that he did not think I was an appropriate witness on that point.

Mr. TUCKER: We were told that Mr. Towers would be the appropriate witness. Now we have him here and he tells us you are the man. I want to know—

The CHAIRMAN: One minute please, Mr. Tucker. Can you give an answer Mr. Mansur?

Mr. MANSUR: Mr. Tucker, I think that Mr. Towers has already indicated that it is not a question of powers which Central Mortgage has under the Act, but rather it is a question of whether the government decides whether it is better for mortgage funds to be found from the savings of individuals, or whether it is better that they be found from the funds of the federal treasury. I, like Mr. Towers, have difficulty in expressing an opinion one way or the other on that particular point.

By Mr. Tucker:

Well, what I would like to know is this: surely, Mr. Towers, you can tell us why you think that the solution to the situation that was deemed desirable then, to bring interest rates down for the man who wanted to build a home and provide the requisite new money by giving the existing institution the rate of rediscount as we already did for the banks on short term and intermediate loans, when this was considered a good thing on your advice in 1939, why is it not a good thing today?—A. I think it is a good thing, and I think it will have that effect. That is, it will enable mortgage loans to be made, certainly at no greater cost than if the provision were not here, and I hope somewhat less, but the whole structure of interest rates is somewhat different today than it was then. If things are such that the interest structure comes down, and incidentally, it has come down somewhat in the last few months, and if the situation is such that it comes down farther, then its influence will be seen in bringing down mortgage rates under this set-up.

Q. Yes, but our hope in this regard now is that the banks will enter this field and provide the new money, and you have already suggested you are going to watch over the banks very carefully to see that they do not put too much money into that field?—A. I think I said that they will watch themselves.

Q. But you are watching them too. That is your obligation under the Bank of Canada Act to see that they do not get too heavily involved in a field that is not entirely liquid, and now then the question I cannot understand is, if we could have got plenty of new money in 1939 by giving rediscount rights to long term lending institutions to come to this Central Mortgage Bank Act directly and pledge their existing mortgages to get money at lower rates so as to lend money at low rates to borrowers, why cannot it be done now? It was a very simple set-up, and I admit that it is a very complicated process now when you bring the banks into it. The banks, of course can come to you, and the mortgage companies, I take it, presumably come to the banks and borrow from the banks, and the banks in turn can come to you. I cannot understand why we should not introduce the Central Mortgage rediscount principle into long-term loan field for the loan companies and the mortgage companies, and then see to it they do meet their obligations to do all possible to meet the situation and also see to it that they do pass on a low rate on which they obtained the new money.

In other words, you, as head of the Central Mortgage Bank, could watch over these institutions directly and see to it that they carried out the will of parliament, but you cannot do it under this legislation because it is too long a chain. What I cannot understand is why shouldn't this step be taken which would enable the government to see to it through a Central Mortgage rediscount set-up that the mortgage and loan companies do bring down interest rates, and that plenty of money is available for Mr. Mansur to do his work in the excellent way he has done it. I do not see why that should not be done. Referring to what occurred in 1939, we were told it was going to provide plenty of new money and it was going to reduce interest rates approximately one per cent. We certainly need this today. When we are told that the present bill is going to provide money at such a cost that the average person cannot afford to borrow it, and I agree with the argument that if the borrower has to have an income of nearly \$300 a month to borrow under this bill, then I think it is time we got your views as to whether what we were going to do under the Central Mortgage Bank Act cannot be done today?—A. I do not think, Mr. Tucker, it was ever anticipated that Central Mortgage Bank would be lending hundreds of millions of dollars to the trust and loan companies. I do not think they would want to be indebted on that scale. As to bringing down interest rates, I do not think that the rate on urban mortgages of this character, 50 per cent or 60 per cent of the value of the property, was $6\frac{1}{2}$ per cent at that time. With the long-term government rate as it was at that time, the companies who were members could lend at a maximum of five per cent on these 50 to 60 per cent loan value mortgages.

Q. Might I say, Mr. Towers, that one of the objections we ran into in the Banking and Commerce Committee in 1939 when we considered that was that the loan companies said they could put out plenty of money at $6\frac{1}{2}$ per cent and why should they be asked to reduce their rate to $5\frac{1}{2}$ per cent.—A. Mr. Mansur will correct me if I am wrong. I do not think $6\frac{1}{2}$ per cent was common by 1939.

Q. That is the statement made in Hansard, right or wrong, based on the evidence given by Mr. D'Arcy Leonard. I have the evidence here; it seemed so parallel to the present situation.

Mr. MANSUR: Mr. Chairman, there was a 6 to $6\frac{1}{2}$ per cent rate in existence on existing business on mortgages made prior to 1935. However, in respect to new mortgage funds in the years 1938 and 1939 the rate was in the range of 5 to $5\frac{1}{2}$ per cent.

Mr. TUCKER: I did not want to take up a lot of time of the committee giving quotations, but I would like to direct your attention to the speeches

made in the House at that time and the evidence given to the Banking and Commerce Committee.

The CHAIRMAN: I think the evidence before the committee would be a little more reliable than some of the speeches I have heard in the House of Commons, when members are discussing finance.

By Mr. Tucker:

Q. I have the evidence before the committee, and it was given by Mr. D'Arcy Leonard then, and that was one of the reasons they passed this bill, because it was going to reduce the rate of interest. They were going to relend this money. They were going to get it from the Central Mortgage Bank and they were going to have to relend it at $5\frac{1}{2}$ per cent. What I do not understand is, if we could strike a blow for lower interest—existing loan institutions of course objected to it most strongly, but they finally accepted the bill even though it was going to bring interest rates down approximately one per cent—on the basis we did it to $5\frac{1}{2}$ per cent—it would affect the whole of their business. What is wrong with bringing this Central Mortgage Bank Act up to date and trying to bring interest rates down? By doing this you would get new money at lower rates of interest.—A. If the long term interest rate on government bonds was today what it was then, you would not be mentioning the hypothetical figure of $5\frac{3}{4}$ per cent.

Q. What would it be?—A. As it was then contemplated it would be five per cent. Perhaps it would be closer to that.

Q. My recollection is that it was between 3 and $3\frac{1}{2}$ per cent at that time, and that is why they finally set the maximum rate at which they could borrow at $5\frac{1}{2}$ per cent, because Mr. Dunning said at that time that they should do business at two per cent at least not more than two per cent. I see in our Act the mortgage rate is $2\frac{1}{4}$ per cent over the cost of the money to the lending companies. At that time there was an objection to it being based on $1\frac{1}{2}$ per cent. That is why they set it up at five per cent but it was raised in committee to $5\frac{1}{2}$ per cent. I take it that the cost of money was roughly on a par.—A. At that time, the Government's perpetual issue was at three per cent.

Q. Was it at par or under par?—A. For a while it was under par, but they came back to par.

Q. I suggest that for quite a while they were selling under par.—A. Certainly early in 1939, until we got into the war period, the rate was not above three, and, as you know, it was three all through the war.

Q. I suggest that under this bill, I am afraid, we are not going to get money loaned at under $5\frac{3}{4}$ per cent. Now, if that is the case, if there is a difference of about one-half per cent in long term yields, then I suggest that the rate at which money should be loaned today to the borrower should not be more than $5\frac{1}{2}$ per cent at the most. I am afraid that the way this bill is envisaged now, without bringing mortgage companies and loan companies into the field, I am afraid, Mr. Chairman, that the rate is going to go over $5\frac{1}{2}$ per cent.

The CHAIRMAN: Do I understand that $5\frac{1}{2}$ per cent would meet with your approval?

Mr. TUCKER: It would not meet with my approval at all, but I say it is better than $5\frac{3}{4}$ per cent.

The CHAIRMAN: I agree with you.

By Mr. Tucker:

Q. And I suggest that if we were to enter this field, with all the experience we have now of the use of central banking facilities, and apply this in the long-term field, under the able direction of Mr. Towers, I am satisfied that we could

bring long term interest rates down to, certainly, $5\frac{1}{2}$ per cent anyway. I wish Mr. Towers would indicate why we cannot give direct rediscount facilities to these people engaged in the field and expected them to fulfil their obligations to society as they were in 1939, why we do not consider doing that now?—A. I think they can get from the Central Mortgage and Housing Corporation the facilities that were available from the Central Mortgage Bank in 1939. Whether those facilities are used or not depends on the one hand on the participation of lenders and on the other hand on government policy.

Q. Then, if they have that power, the question is this. It was thought at that time that this whole question—tied up as it was with inflationary or anti-inflationary controls which were put in the hands of the Bank of Canada—that that would also have a similar effect and should be under your hands too.—A. No. I do not want to contradict you, Mr. Tucker, but that was an accident. This is the way it happened: the Central Mortgage bank of course had no corporate connection with the Bank of Canada. It was a separate institution with a separate Board of Directors. But one of its first major jobs was, in a sense, to give away government money, because the government was going to share in the downward adjustment of the western farm mortgages.

Q. That part of it, yes.—A. That is a pretty ticklish thing, when it comes to dealing out funds provided from the public treasury. The government wanted to get action very quickly, but it was bothered about the question of setting up new management for this new institution which had to do this rather delicate task right away.

So, preferring the devil that it knew to the ones that it did not, it asked if the Bank of Canada, in the form of its governor, deputy governor and assistant would be responsible for the management, although it was not in our field at all. Reluctantly these individuals said yes. While this informal arrangement had of course no legal value, there was the expectation that as soon as possible they would be released from that job and that Central Mortgage should take care of the management.

There was also a further informal understanding that if war was pretty clearly going to break out, the Central Mortgage Bank would be put in cold storage. Of course, in the end that is what happened.

Q. The reluctance of course would be due to this tremendous task of writing down all the mortgages to 80 per cent of their actual value. It would encompass all rural and urban mortgages. That part of it of course was something I could understand, the reluctance to take it on. But the question of exercising re-discount powers is another thing. I recall, Mr. Towers, that everybody concerned thought that that should be very closely associated with you because of your powers under the Bank of Canada Act because its operation would have an inflationary or an anti-inflationary effect.

The second part of the Act had to do with the re-discount provision. I remember it was assumed that it was very proper that that should be very closely associated with the Bank of Canada because it had to do with the very thing—control of volume of credit which concerned the Bank of Canada. Therefore I suggest to you that this right of re-discount of long term securities is something—and I put this forward for any observations you may care to make—is something which should be under the control of yourself rather than under the control of somebody in charge of a housing corporation, because this is essentially central banking in relation to long term securities.—A. The re-discount would not take place with the Bank of Canada. It was to be done by the member companies; and the funds were to be provided by the government to the Central Mortgage bank, not provided by the Bank of Canada. While government operations of that scale, are of concern to the Bank of Canada they are only part of the whole vast activities of government in that field.

Q. Yes, but it was expected at that time that while the government provided the \$200 million, you would re-discount these long term securities of the existing lending institutions, and at the same time you were operating an easy money policy to extend credit generally and you were providing the government itself with the means of so doing. The two things were inter-related and in fact the Central Mortgage Bank Act was going to carry out an easy money policy of getting the rates down.—A. Mr. Tucker, I think that that policy was there before the Central Mortgage bank came along.

Q. But it was to carry it into the long term mortgage field.—A. It was to try to make lending of mortgage money more effective and more economical and to reflect more fully the low rate which existed for long term credit.

Q. It was to carry this into the long term credit field, and it was an attempt to get interest rates down generally.—A. By improving the machinery of mortgage lending rather than by any additional or specific monetary action?

Q. Exactly, and I say that it did improve the machinery very much, and that until we had the Central Mortgage bank to do this work for us, we did not have up-to-date machinery in the long-term field, and that was the only way we could get some sort of central bank for long-term lending. We haven't the machinery in that field without such an organization and I think we should get it. It seems to me that the people to operate it are not men who are in charge of building, I mean in charge of the actual housing end of it, because it is a bank proposition. And I take it that is the reason Mr. Mansur has not exercised these powers to any great extent in the way of making loans in this field. It is apparently due to this, that he thought there should be a change in the Act in order to get the banks into it in order to provide new money. In short, he felt that it was not his field.

I do not want to take up any more time of the committee but it seems to me that consideration might well be given to making use of that machinery as to which I was convinced at that time by people such as Dr. Clark and other experts that it would work. It was expected to provide new money, and to move interest rates down in the long term lending field. I think they were right, and I think that if we did it now, we would tend to bring interest rates down to the level where the average person might be able to borrow in order to build a home for himself. That is what I was hoping you would deal with, namely, the question of the feasibility of doing it today under the present situation.

The CHAIRMAN: Mr. Tucker, you have presented your views to the committee. I am sure that the government will read them with interest and give them careful thought.

Mr. TUCKER: I thank you Mr. Chairman for giving me the opportunity of presenting my viewpoint. I do not want to say anything further.

The CHAIRMAN: Now Mr. Low.

By Mr. Low:

Q. Mr. Chairman, I shall not be very long. What Mr. Tucker has said has had a bearing on my problem. He has presented some views which the committee would do well to study most carefully. He emphasized one of the very big housing problems, namely, that of providing homes for people in the low income groups who really want to own their own homes. That is a problem which appears to require action by municipal, provincial and federal governments. I am thinking at the moment of the Municipal Improvement Assistance Act which was passed I think in 1938 and what was done under that Act.

Money was made available by the federal government in order to finance self-liquidating projects in municipalities at a rate of 2 per cent, and over as long a term as 20 years. As I remember it, the advances were made to municipal

bodies under a successive guarantee arrangement on the part of provincial and federal governments. The projects were administered by the municipalities, and my information is that the scheme has worked out very well and that no losses have been incurred.

The question I want to ask Mr. Towers is this: Would not a housing scheme for low income groups developed along the same idea and carrying a rate of not more than, let us say, 3 per cent, be possible and practical? The amount of such loans, of course, should depend always on the conditions that you have to well explained already. Perhaps Mr. Towers could answer that and I will follow it up with another question.—A. I would like to try, but I am afraid I cannot because it would be a matter of government policy. Both the machinery and the degree of subsidization involved if any are very definitely matters of government policy on which I should not express a view.

The CHAIRMAN: Mr. Low, that Act was passed in 1938. Do you remember the purposes expressed in that Act?

Mr. Low: Yes, I do quite well, and I think you would find that those purposes are quite in line with the purposes we are dealing with today in Bill 102. Surely houses for low income groups of people in municipalities could be considered as self liquidating projects. Could not the government of Canada work out with the Bank of Canada and chartered banks arrangements whereby certificates authorizing creation of a revolving fund for housing would be deposited with the banks and such a fund be made available to municipalities at say 3 per cent for the purpose of providing houses for these people, the arrangement being under the Municipal Improvement Assistance Act. Is there anything you see that would be impossible in a scheme of that kind from the banking point of view outside of government policy?—A. There is nothing impossible in it. At the present moment I would not like to see the creation of a substantial amount of additional credit for that purpose. But, in any event, I think arrangements of that kind are an effort to find the philosopher's stone so to speak, by apparently going at the thing in a very cheap way. Government could do the same thing by borrowing money through the sale of its issues in the market. What is looked for is a source of funds and a source of cheap funds. Government can, if it wishes, provide the funds. It can provide them either at the cost it incurs in borrowing them, or at something less in the form of a subsidy. To the extent that it is less than the cost of borrowing, then that comes from the taxpayer.

Q. I was thinking in terms of the probable amount of new funds that would find their way into the aggregate of our purchasing power in the country, but the means we are using in this Act is by bringing in the chartered banks. Perhaps making those funds available in another way they would not have to pass through the chartered banks in the same fashion. That was what I had in mind. Now, is there anything that would make it impossible for you to supply those funds in a little more direct way and under a scheme such as I have suggested?—A. As I said a moment ago the government could borrow them and provide them direct in that way. It would be unwise to look to the Bank of Canada to create them for that purpose, because the Bank of Canada must address itself so far as it is capable of doing so to the economic problems of the country as a whole rather than the specific one of housing. We are very much concerned with that as with everything else, but our policies must be guided by housing, imports, exports, and trade as a whole.

Q. I am aware of that, but what I am concerned with at the present moment is this: Let us say if through the provisions of Bill 102 it is expected that the chartered banks will make through the creation of extra funds X dollars for housing, why could not those X dollars be made available in the method I have suggested in a lower rate of interest?—A. By whom?

Q. In the process I have suggested where, let us say, the Bank of Canada unites its processes with those of the federal treasury and the chartered banks in making funds available. I will cite an instance. Back in 1933 and up to 1940 the Brazilian government deposited from the federal treasury with the chartered banks certificates authorizing the chartered banks to make loans for housing purposes at 2 per cent, and that was at a time when the chartered banks in Brazil were having to pay 7 per cent in order to attract savings deposits and they did it over a period of 17 years successfully and succeeded in having 75 per cent of all their people in their major cities own their own homes.—A. I know the problems in Brazil are terrible.

Mr. McILRAITH: You say that they did it successfully. Successfully according to what standard?

Mr. Low: According to the over-all economic standard of the day.

The CHAIRMAN: Mr. Low says they had homes. That is the point.

By Mr. Low:

Q. We are concerned about getting homes for those who simply cannot get them under this Act; that is what we are concerned about. What I wanted to find out is: is there any reason why such a revolving fund like that could not be provided?—A. I think that for its cheapness it is mixed up with the creation of new money. I do not think the Bank of Canada should create money for that purpose alone. As I said before, our policies in that should be guided by the needs of the economy as a whole and I think that a departure from that principle by channelling newly created funds to any one purpose is most unsound.

Q. I will not pursue that. I think there will be an opportunity later. I wanted to specifically relate it to the Housing Act. When we come to the changes in the Bank Act we will have something further to say about it.

There is one further question: Will these mortgages we are talking about now, the C.M.H.C. mortgages, rise and fall with the market? Is it contemplated that they will?—A. The interest rate?

Q. No. Market value. Will the mortgage value rise and fall with the market?—A. That is a difficult question. So far as the original lenders are concerned these mortgages which are insured by the government will be held on their books at their par value. If it should be the case that some lender wanted to sell his interest in the mortgage there is I suppose no provision in the Act which prevents that original lender from selling at a discount, but I do not expect that there will be generally a fluctuating market of that kind.

Mr. Low: Thank you very much.

By Mr. Hees:

Q. I am not very clear about just where these additional funds we are expecting the chartered banks to produce for housing purposes are going to come from. I have spoken to senior officials in a couple of our large banks who have explained to me—this was a few weeks ago—that there was a certain proportion of their funds, which by agreement or understanding, they are permitted to invest in non-government securities, and I think that that proportion is about 55 per cent today. They have told me that at the present time in the market all of that proportion of their funds is invested in commerce and industry and that if any large volume of additional funds are to be made available for housing purposes they can only see it being done by either robbing industry and commerce of the funds presently being invested in those fields, or by some new arrangement with the Bank of

Canada to allow them to invest a larger proportion of their funds in non-government securities. Could you explain to me where these funds are to come from?—A. In so far as that 55 per cent of loans and non-government securities is concerned, I think it was a figure I used in referring to the banking system as a whole some while back when the proportion was under that. I said at the time that we would be rather troubled by an increase in the volume of credit which brought the system as a whole over the 55 per cent. But, everything must be related to the circumstances of the time. There was a time in the past when the system had loans and non-government securities of 65 per cent or more, and there may be times in the future when that may be perfectly appropriate. There is of course quite a variation between banks. They range all the way from 50 to 51 up to 65 or 66.

Going on to the other point perhaps I may say this: that in a sense this bill comes along at an awkward time because the inflationary pressures are still fairly recent. Certainly from somewhere around 1951 on they were so strong that constant efforts were being made to try and keep the expansion of bank credit from getting out of hand that has produced a certain tight feeling concerning where the money for mortgages is coming from. We know that under normal circumstances the whole structure of the banking system increases with the growth of the country and the need for loans. Just as an illustration, I might say that if one had come to a bank or banks in May or June of 1952 when they were feeling pretty well loaned up and had said your customers within the next 15 months are going to require an additional \$600 million, I think they would have said, "Well, where on earth would that come from?" But the whole structure has expanded in that 15 months and the \$600 million was found. Now, speaking from the economic point of view, that may have been a little too much, but there it was.

Q. Well then, Mr. Towers, do I take it that you do not see any difficulty in the chartered banks from their present resources providing additional funds necessary for housing needs?—A. I think their resources will increase.

Q. Then you do not see any restriction on the investment that has been going on in commerce and industry?—A. No, I see none whatever.

Q. I see.—A. Now, it may be that if the demand from commerce and industry falls off somewhat, if some of the people who have been carrying rather high inventories should reduce them, it may be that the money which goes into mortgages will not represent an equal addition to their assets. Some of the other things might be reduced somewhat and make room, but if so, they would be reduced by reason of the borrower's reduction in requirements rather than the banks turning them down to make room for the other things.

Mr. HEES: I see, thank you.

The CHAIRMAN: Gentlemen, we have had a very interesting morning. It is now a few minutes to one, so we will adjourn until 3.30 and hope to conclude this afternoon.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Cameron has the floor.

By Mr. Cameron:

Q. I should like to ask Mr. Towers some questions with regard to the relative position of the mortgages contemplated under this new Act, to be held by the trust banks, and, shall we say, regular dominion government bonds. Would you say they would be roughly of equal security value?—A. Yes, I would.

Q. They would be about the same security value?—A. Yes.

Q. Then what would your opinion be, Mr. Towers? Since they are of roughly similar security value, does it strike you as a reasonable proposition that the Dominion government securities are—I think they are about 3.55?—A. About that, yes.

Q. That these mortgages should be somewhere not too far out of line in that regard? What would you say would be the added cost to the banks?—

A. That I do not know, Mr. Cameron. Of course, the banks themselves have not had that experience yet, but in appraising the difference between what the lender might expect in the way of yield, between a government security and one of these mortgages, one has to take into consideration the fact that the government security can be sold at once if it suits the convenience of the bank, whereas these others are normally a long-term proposition, and, secondly, of course, the work of servicing and making collections, and so on and so forth, adds to the cost of the banks handling them. Now, what that difference should be because of the fact that one is a tie-up and the other can be sold at once, and what the difference should be in respect to expenses, I could not say at this point.

Q. Well, is there really such a very great difference? What effect on the value of the mortgage—or can I put it this way—what losses would a chartered bank sustain if it decided to take advantage of the discount privileges in these mortgages and presented the Bank of Canada with a block of them; what losses would it sustain?—A. It would not sustain any loss if it used these mortgages as collateral for a loan from us. It would pay whatever the going Bank of Canada discount rate was, as a minimum at least, but, of course, that loan would be only for a temporary period.

Q. It would not be able to dispose of them directly to the Bank of Canada?—A. No, the Bank of Canada is not being authorized to purchase the mortgages.

Q. It is permitted to make advances on them?—A. Yes.

Q. You told me you would not be able to give me any idea as to what the costs to the banks would be of servicing these loans?—A. No, I have not any idea. I know that others have knowledge in regard to the insurance company experience in that respect, but I am sure the banks themselves do not know yet just what it will be and can hardly know until they have had some experience.

Q. I was wondering, in the light of some remarks I think Mr. Mansur made when he was giving his evidence with regard to the responsibilities that are going to be undertaken by Central Mortgage and Housing Corporation and continued by Central Mortgage and Housing Corporation, whether the banks would be assuming costs that are now borne by life insurance companies in this field, because, as I understand Mr. Mansur, it was something to this effect, that as the banks lacked the facilities and the staff for doing the sort of work that the other lending institutions have been doing, the Central Mortgage and Housing Corporation was going to assume that class of work.

The CHAIRMAN: But they are doing it for all the lending institutions, not just for the banks.

By Mr. Cameron:

Q. It was available to them, yes. Would the chartered banks have the same sort of costs that the life insurance companies would have?—A. I think that some one else—I don't like to bring Mr. Mansur in and pass the buck to him, but I think he has a much clearer view of the actual cost of operation in this business than I would have.

The CHAIRMAN: Would you like Mr. Mansur to reply to you?

Mr. MANSUR: Mr. Cameron, in his evidence the other day Mr. Bryden stated that in the experience of his company the cost of operation of their mortgage portfolio had ranged from .6 to one percent. In my evidence a few days ago I suggested an average operating cost of .85 per cent, and in making that estimate I was referring to the cost of an existing portfolio. The services performed by Central Mortgage have relation to the acquisition costs rather than to any costs involved in the continuing administration of the mortgage portfolio.

Mr. CAMERON: I know, Mr. Chairman, that you object to us making any assumptions with regard to the insurance rate, but I would point this out that Mr. Winters in his speech to the House did narrow it quite considerably. He told us that it was going to be, he thought, slightly in excess of the going rate and slightly less, if I recall correctly, than the $6\frac{1}{4}$ per cent. It was to be something within that range, $5\frac{1}{4}$ to $6\frac{1}{4}$, I think, perhaps $5\frac{3}{4}$ is not a very unreasonable guess.

The CHAIRMAN: I have no objection to you guessing at $5\frac{3}{4}$, but in the second question guess at $5\frac{1}{2}$, will you?

By Mr. Cameron:

Q. The point I wanted to make is this, Mr. Chairman. I wanted to ask Mr. Towers whether he does not think, in view of the evidence given by Mr. Mansur and in view of the position of dominion government bonds, that this proposition for the chartered banks should be quite attractive, given the assumption that the interest rate is going to be somewhere in the neighbourhood of $5\frac{3}{4}$ per cent?—A. I hesitate to use the words "quite attractive", but it seems to me it should be not unattractive.

Q. Not unattractive. Right. Now, Mr. Towers, you were suggesting, I think—and quite rightly, of course—if you could not even guess as to what the proportion of the demand deposits would be made available—A. Of the personal savings deposits.

Q. Yes. Now, would you consider that the amount that we might expect from the chartered banks under this legislation would be of such a size that, if those funds were not made available from these savings and were made available through other means, there would be an inflationary danger, that is to say, if we did not rely on the funds already in the hands of the chartered banks and if we relied on other methods?—A. That it would be dangerous to rely on other methods?

The CHAIRMAN: No, you have not understood his question. State it again, Mr. Cameron.

By Mr. Cameron:

Q. Maybe I did not express it very well. I have the idea in mind that there are, I presume, different methods by which the government of Canada, let us say, could see that these funds are made available. One is by legislation to induce the existing institutions—in this case the chartered banks—to release the funds that they have on hand that have been deposited as personal savings, and the other would be through fiscal measures through the Bank of Canada. Now, would you consider that to adopt the latter proposal would involve dangerous inflation?—A. Yes, I would, because if the funds came from the Bank of Canada—and let us take a figure from the air and say that after a certain period they amounted to \$300 million—that coming from the Bank of Canada would swell the cash reserves of the chartered banks by \$300 million. In other words, there would be something like 35 per cent over and above present cash reserves, and that certainly has a very inflationary potential.

Q. You would say that that would be quite a dangerous inflation?—A. Yes, and as one went on, it would become still more so.

Q. The reason I asked that question is that I had in mind the possibility of Central Mortgage and Housing Corporation doing something of the sort which Mr. Tucker was urging this morning, that is, making loans direct, or entering directly into the lending field at a much lower interest rate than we can expect the chartered banks to do. But you would consider that would be too dangerously near inflation?—A. I would consider it would, Mr. Cameron, if the source of funds was to be the Bank of Canada. But if the source of funds was to be the Central Mortgage—

Q. You mean Dominion government revenue?—A. Dominion government revenue or borrowings, then that is a different situation.

Q. Thank you. I think that is all I have.

The CHAIRMAN: Thank you, Mr. Cameron. Now, Mr. Fleming.

By Mr. Fleming:

Q. Mr. Towers, I think we can agree that the proposed scheme of bank loans on mortgage security is quite a radical departure from Canadian banking law and practice as they have existed since Confederation?—A. Yes, it is.

Q. In your opinion, Mr. Towers, what considerations apart from an incipient shortage of mortgage funds justify that departure? Are there any other considerations?—A. I am not sure whether Canadian banking history really indicates in any detail why the provision against lending on mortgages was there in the first instance. But I suspect that it had something to do with the fear that the banks might get into mortgage lending indiscriminately, on industrial properties; such bank loans, particularly in a young country, or vacant land might be something which was very risky. I suspect that is why that provision is in there.

The banks can of course lend on mortgages by means of corporate bonds which are mortgages in another name. I think it is perhaps time to review the situation and to approach it not from the point of view that just because the prohibition has been in there from the start that it should be carried on, but rather a query: is that prohibition necessary now from the point of view of safety of the banks or their liquidity.

On the safety factor, the government insurance enters in. And on the liquidity factor I would not assume that the proportion of savings deposits employed in this way will ever be so high as to make liquidity a serious consideration.

Having gone that far, we could then come to the question of desirability, from the borrower's point of view and that of the country as a whole. Having in mind the shortages which are likely to exist in mortgage funds if vast amounts of people's personal savings are barred from that field, I would come to the conclusion that to open the door was a desirable thing to do.

Q. May I take it, speaking briefly, that even apart from this imminent shortage of funds adequate to sustain a building program of 100,000 houses per annum, you are of the opinion that there was reason for this new departure, and that the prohibition on the banks on direct lending on mortgage security should be lifted?—A. Yes, and I have felt that way for many years.

Q. This morning when asked about the probable extent of bank participation under the new scheme you said first of all that it would be a fairly modest percentage of the funds available to the banks for lending. You said that it would not be, in your opinion, as much as 25 per cent of those funds. I wonder if you could be more specific.—A. No, I really could not because I was taking that figure out of the air more or less, when I said 25 per cent. Moreover, this thing will grow gradually, as we can understand. But the personal savings

deposits are very substantial and they will grow substantially over the next 10 years, assuming that we have satisfactory conditions in the country. Ten years from now they might be \$7 billion. Well, even 15 per cent of that amount outstanding at any one time is \$1 billion, which is a very substantial amount.

Q. I presume you have had this whole problem under active and intensive study for some time?—A. I have given it a fair amount of thought myself, yes. But the really active study has been done by various government departments.

Q. Have you, in the course of your study of the problem arrived at any estimate whatever of the amount which might be available out of this new source of mortgage funds, namely, the banks?—A. No, I have not.

Q. None whatever?—A. No.

Q. You have not arrived at any estimate of what you think can be expected in the next 12 months from the time the Act comes into force?—A. No.

Q. Or 5 years time?—A. No, because I do not know what the demand will be during that time and how much the share of the banks will be in the filling of that demand.

Q. Did you consider this problem: that immediately the Act comes into effect, the present lending institutions have to provide 100 per cent of the mortgage funds in each case; therefore, if there is no increase of accession of funds to the mortgage market from the chartered banks, there will actually be 25 per cent less available in the total for mortgage lending than under the present Act?—A. Yes.

Q. Did you arrive at any conclusion on this aspect of the problem as to whether or not the amount available from the banks would be at least adequate to make up that 25 per cent reduction?—A. Well, I must answer you indirectly, Mr. Fleming. I do not want to make any prediction as to what they really would lend in the course of the year, because I would be leading the committee astray if I tried to do so. But if the demand were there, if the banks were satisfied with this type of business, for the banking system in Canada as a whole to lend \$100 million is not a terribly large figure.

Q. Well, the extent of the lending by Central Mortgage under the present joint loans has been running I think about \$65 million last year, with about \$50 million on direct loans.

Mr. MANSUR: \$60 million on joint loans.

By Mr. Fleming:

Q. That is right, \$60 million on the joint loans. May we take it then that you have no fear that the net result will be less mortgage money than is available now? In other words, that you think that the banks will make up the diminution resulting from the governments' withdrawal from participation in joint loans?—A. I assume your proviso that the banks would consider that this was a satisfactory type of business. If so, and subject to whatever physical delay there may be of getting into operation, I would not consider the amount which you mention overly large.

Q. Has this subject been a matter of discussion between the Bank of Canada and the chartered banks?—A. No. The talks in respect to this whole matter have been between the chartered banks and Central Mortgage.

Q. My next question is this: have you formed any estimate or are you prepared to express any opinion as to the extent to which you think the banks may be expected, over a period of one year, or over a few years, to use their portfolios of insured mortgage loans as collateral with the Bank of Canada?—A. Oh, I would say very little.

Q. Within that small area, is it possible?—A. In fact, perhaps I ought to go further than that and say that I would not expect them to use them

at all as security unless they thought it was desirable to do so for psychological reasons. Otherwise, if they had occasion to borrow funds, they would probably put up government bonds because they have plenty of them, and it is a very convenient method of doing it.

Q. You indicated this morning that when they need more liquid sources they are going to use the most convenient security for the purpose, and you would not regard the insured mortgage loan as the most convenient for discount purposes?—A. A little more work involved.

Q. Perhaps my next question has less point in view of your last answer. As a result of the study which you have given to this bill in the proposed new scheme, are you prepared to express any opinion as to the effect of its provisions on the cost of house construction in the first place.—A. No, I cannot do that.

Q. Then possibly you would not be prepared to express an opinion as to the wider effects on the economy in general, as to whether there will be more upward pressure on price levels?—A. That, of course, depends on one's view of the picture as a whole, the economic picture as a whole in this country. For example if this had come along in 1952, or still more in 1951, and someone had been able to say that as a result of this move an attempt would be made to construct an additional 50,000 houses, and that the financing would be available for that, I think one would have said at that time, in 1951, that the effects would be very inflationary indeed, and one of the results would be to add to the costs of housing construction and delay the completion of houses.

But, so long as general inflationary pressures are not there, and so long as labour and materials are available for effective construction then the financing in this way, in my opinion, will not tend to push up costs.

Q. Nor, I take it, influence the economy in general?—A. Well, to the extent that more houses are being constructed than would otherwise be the case, and assuming there is a public demand for them, and assuming also that there is physical room to do it, why of course, the effect on the whole economy is good just so long as you do not try to do too much.

Q. When you say "good", will you relate that to pressures on the general price levels?—A. I am assuming that there is room for this physically, in which case there are not pressures.

Q. You used the word "good". I wonder if you would translate the word "good" into terms of pressures on the general price level?—A. I would say it would be a higher level of business, but without upward pressure on the price level.

Q. In transactions between the chartered banks and the Bank of Canada, having in mind of course the opinion you have expressed that the chartered banks may not make very wide use of any discount with your bank, I take it that to the extent that they do so discount it will still be a matter of the Bank of Canada deciding on the terms upon which they will accept these loans as collateral?—A. Accept the mortgages as collateral?

Q. Yes, these insured mortgages?—A. They are eligible as collateral and if a bank wanted to borrow on them of course we would say yes right away in so far as the question of collateral is concerned.

Q. I am asking the question whether or not the scheme is going to be such that the chartered bank if it desired perhaps quite strongly to put these up as collateral with you for accommodation, whether they have a right to accommodation on the strength of those insured mortgages or whether it remains as is the case today between any borrower and lender, a matter of terms to be agreed upon between them?—A. Yes. The banks have no right—I put that in quotation—to get a loan against government bonds.

Q. Nor will they have any right in the strict sense of the word to borrow from you on the pledge of insured mortgage loans?—A. That is correct.

The CHAIRMAN: Mr. Fleming would you say there are any greater rights between a security as against the other. I understood him to say that there was no distinction.

By Mr. Fleming:

Q. I will follow up that question with another question. The situation as between the Bank of Canada and the chartered banks seeking to use the insured mortgage loans as collateral is just the ordinary situation you have between a borrower and lender in any circumstances?—A. Yes. And I should add this: while there is not a statutory right to borrow if a bank should need to borrow from us for a reasonable period, I am absolutely certain we would not say no. So that the result is there although the right does not exist.

Q. Have you had an occasion to refuse any chartered bank a loan?—A. Never.

Q. Do the rates vary from time to time in your terms?—A. They have not so far. Of course the number of loans that we have made to chartered banks have been very very few in the 19 years of the Bank of Canada's existence. We are obliged by statute to establish a minimum rate at which we will loan which is presently 2 per cent. That does not preclude the possibility that if a bank was coming too frequently or for too long periods of our pushing the rate up, but in actual fact that has not happened. Any loans we have made are at the published rate.

Q. Will you express your opinion in the light of the fact that the lending institutions on their proportion of the joint loans today are receiving an interest rate of $5\frac{3}{4}$ per cent; is there any reason that you see after surveying and studying this whole new scheme to suggest that there is going to be any reduction in that rate of return to those lending on mortgage security under the new scheme?—A. That would get me on to dangerous ground if I made any predictions in that regard because in the Bank of Canada we have not got any divine method of foreseeing the future. I do not know exactly what business conditions will be six months from now, nor what the level of the interest rate will be.

Q. I make allowance for those factors. There may be a good many factors affecting the interest rate and its fluctuations. Would you be prepared to express an opinion as to whether there is any reason to expect as a result of the adoption of this new scheme in place of joint loans that there will be any effective reduction in the rate of return on mortgage funds put up by the lending institutions?—A. As a result of this change—I find that a very difficult question to answer. Really, it seems to me the question is more like this, and now I am picking hypothetical rates—I will pick two,— $5\frac{1}{2}$ and $5\frac{3}{4}$: “Is $5\frac{1}{2}$ sufficient to attract all the funds which are needed?” I do not know. But I would say this, that surely the introduction of new lenders, and ones who, while not having been in this particular business before, are very experienced and capable lenders with an organization across the country, surely the introduction of that new element does not increase the chances of rates being higher than they were.

Q. I presume you would set off, as against that, the fact that you are increasing your band of potential purchasers by reason of other features in this bill, such as reducing the down payment, and extending the period of amortization?—A. Yes.

Q. I take it then that as a result of all these factors, some on one side and some on the other, you do not feel you can hazard an opinion as to what is likely to be the effect of this bill on the interest rate?—A. No, but I cannot feel that, the introduction of the new source of supply, is a factor making for higher rates. I would say, other things being equal, it would be a factor making for lower rates, but individual companies, and I am not talking about banks now, but individual companies in the insurance field, will have their views, and if a rate does not seem attractive to them, they will resist it. If the resistance is not really justified in the end, it goes away, and if it is justified, of course it keeps up.

Q. This is a question in relation to interest rates. What step is the Bank of Canada taking now to influence interest rates in Canada?—A. Well, that is a question which, even if we were here in the same place discussing the Bank of Canada Act, I would have to ask the committee to allow me not to answer, because if I should say they were doing such and such a thing which we hoped would result in a much easier money market, and that implies lower interest rates, that is a remark which really I should be shot for saying, just as much as it would be wrong of me to say that we were apprehensive about inflation and were going to try and pull in.

I can talk about things after they have occurred and after they have matured a little in age, but I cannot speak of the future.

Q. I did not ask that question with a view to being embarrassing.—A. I realize that, Mr. Fleming.

Q. Would you be prepared to say, without indicating what the measures are that you are using, whether the Bank of Canada is or is not attempting to influence interest rates in general?—A. There again I am in a fix.

Q. The same reservation?—A. Yes.

Q. Would you be prepared, in the light of your comment, to say for instance, in 1953—if that period is going far back enough to make it fair to ask you—what, if anything, in 1953 the Bank of Canada did with a view to influence interest rates?—A. As I mentioned this morning, our objective is not specifically to raise or lower interest rates, but to do things which restrain borrowing or encourage it, and as a by-product, of course, the interest rate factor comes in. What we have been doing since the autumn of 1950, was, without burning down the house to cook the pig, to exert whatever influence we could, directly or indirectly, to restrain borrowing, and as a by-product this made it more expensive. In other words, interest rates went up. Any activities of ours of that kind, have not been at all noticeable in recent months, and bond prices have gone up by quite a fair amount.

Q. I will not pursue that now. We might have a better opportunity to do so when we come to the Bank of Canada Act.

The CHAIRMAN: Yes, I hope that all of you will restrain yourselves in the same way, secure in the knowledge that you will have ample opportunity to question Mr. Towers when the revision of Bank Act comes before us. Mr. Fraser?

Mr. FRASER: (Peterborough): Once again, Mr. Chairman, most of the question I wished to ask have been covered.

The CHAIRMAN: That is what I hoped.

By. Mr. Fraser (Peterborough):

Q. But, following along the lines of Mr. Fleming's question with regard to securities that the banks would hold, would the Bank of Canada class them as government securities because they are secured by the government?—A. We put them in the same category, yes.

Q. Then on account of this classification as government securities, that would give the banks an extra incentive to take on that kind of security, would it not?—A. Well, the insurance factor, I would think, would make the banks rate them, from a safety point of view, as very close to government securities although, as has been stated earlier to the committee, there can be a moderate loss on them. I think they would put them very close, from a safety point of view, but of course they would not rate them, by any means, the same as government bonds which they can deal in freely at any time.

Q. Well now, the bankers are allowed to hold a certain amount of preferred shares in different companies?—A. There are no restrictions on that.

Q. Well now, on account of preferred shares and common shares, having the income tax feature in there of 20 per cent allowable under income tax, would you not think that in many cases the banks would prefer to have the preferred stock at say $4\frac{1}{2}$ or 5 per cent, in preference to these securities because there would not be the carrying charges or service charges on them?—A. Well, I may be missing a trick here, but does a corporation which holds the stock of another corporation receive that income tax advantage that you mention?

Q. I believe they do.—A. Or is it not just persons?

Mr. McILRAITH: Just persons.

Q. Well, it is passed on to their stockholders, and the stockholders make up their report.

The CHAIRMAN: Be careful, you are making new law, Mr. Fraser. We will pass that.

Q. You mentioned this morning that you thought these securities, after a certain time, would be traded on the open market. Did you mean by that that they would be traded openly or just traded among the different lending institutions or banking institutions?—A. I did not think of them as being traded on the open market, but what I had in mind were arranged deals. In other words, if a bank held certain of these mortgages, and one of its clients said that they were looking for an investment of that kind, the bank might arrange to sell that mortgage to the client. It may be the pension fund of some corporation, a client of the bank, or something of that kind.

Q. Would you figure that if a bank sold securities of that kind that the bank would still engage as their broker to hold the services of it?—A. That is in the law. It is in the law that an approved institution would have to do it.

Q. Thank you, that is all.

The CHAIRMAN: Mr. Adamson?

By Mr. Adamson:

Q. Mr. Towers, there is one question that has come up in your Bank of Canada statistical summary about the loans by chartered banks and on page 7 you say that the total loans in Canada amounted to \$4,052.3 million, and you classify these, but I noticed that of that fairly substantial total there is only \$154.5 millions under the heading "Total government and other public services" which only \$92.1 millions are loaned to municipal governments and school districts. Now, does that show that the huge majority of loans by the chartered banks today are commercial and that there are very little in municipal and other government securities? There are holdings of municipal securities in addition to those loans to municipalities.—A. I do not have the figure at my fingertips. May I borrow that copy of the statistical summary?

Q. Yes.—A. In fact, I see that I am not going to be able to get it here because municipal and other securities are lumped together, and I do not have a breakdown of those figures. But going back to what you were saying earlier, the vast majority of the loans are for commercial, industrial and agricultural purposes.

Q. Then on page 1—A. I should have added "personal".

Q. Yes, it is broken down here. You might like to have the reporter put in the headings.

The CHAIRMAN: Just put the question.

By Mr. Adamson:

Q. The Canadian deposit liabilities are \$9,122 million and the total loans are \$4,052 million. Now, does that mean that of the deposits only, shall we say, rather less than half is loaned?—A. Yes, but if you include provincial, municipal and corporate securities, then about 54 per cent of the banks' Canadian deposits are in those securities and commercial and industrial loans and, broadly speaking, the balance is in cash—about 10 per cent—and government of Canada securities.

Q. I notice also here on page 5 that your total of cash reserves and government of Canada securities has steadily declined over four years from about 55 per cent to a little less than 40 per cent. Now, how do you explain that, having regard to the very healthy cash position of our banks?—A. The cash reserves are about 10 per cent. It is the government securities which have gone down somewhat, and perhaps I should point out that this is a percentage relationship. In other words, if the total of deposits and loans has gone up substantially but government securities remain steady, they would end up as being a smaller percentage of this larger total. What has happened is a combination of the two things, a very substantial increase in loans and deposits and a slight decline in their holdings of government securities.

Q. In other words, they have sold government securities, presumably to the Bank of Canada, in order to obtain cash?—A. They have sold government securities. Where they go in many cases the bank does not know. They may be sold through a dealer. So the bulk of the securities which they have sold has gone to places other than the Bank of Canada, but the Bank of Canada in its operations in the market has added to its holdings of securities somewhat, thereby increasing the chartered banks' cash reserves and enabling them to maintain the 10 per cent ratio, even with much higher deposits.

Q. Because the Bank of Canada maintains the market on government of Canada securities?—A. Not maintains.

Q. Supervises?—A. Not even that, but we are active dealers and jobbers in the market.

Q. That is—A. At flexible prices.

Q. That is one of your functions, controlling. Then there is one other question I would like to ask you. As this is a radical—I think the word was used—departure from our banking practices, what are the differences between our banking system and the American savings banks which loan money directly to home building, house construction?—A. There are always some technical differences between the two countries, because of the very detailed form their legislation often takes, but disregarding all that the main difference is that in the United States there are a number of savings banks hived off as such.

Q. Who do no commercial business?—A. Who do no commercial business. We have one or two rather similar in Canada, but relative to the whole picture they are small in size. Why it was that a fair number of pure savings banks grew up in the United States and did not here, I could not say, but I suppose it would relate to the fact that in this more widely spread country a bank or a bank's branch had to do all kinds of business to make a living. I guess that was the reason, but whatever the reason may be they have these pure savings banks, and we have not. Our banks are commercial banks and savings banks combined.

Q. And it is the function of this legislation to introduce in a measure the American possibility of loaning savings bank funds?—A. American and a number of other countries. It is to give one of the attributes of a savings bank to the savings department of the Canadian banks.

Q. Yes, I see, and in the hope of getting some of this 46 per cent difference between the deposits and the loans, that is the difference that I have mentioned, into the mortgage business.—A. Not exactly, Mr. Adamson, because if one visualizes it taking place that way, then it means that the banks must sell government securities in order to make mortgage loans. On occasion, of course, they may do that, but it is more likely that they will devote a part of increasing deposits to the mortgage loan business, rather than that they will deliberately reduce other assets. That can happen. It may be a combination of the various things.

The CHAIRMAN: Mr. Stewart.

By Mr. Stewart:

Q. Mr. Chairman, Mr. Towers told us that he thought the banks would regard these mortgages as akin to a gilt-edge investment.—A. From the standpoint of security.

Q. They are pretty good security?—A. Yes.

Q. I don't ask you to agree with me but I assess the rate of return will be 5.75 per cent. We have heard from the representative of the Central Mortgage and Housing Corporation and insurance companies that the cost of service is in the neighbourhood of 60 cents to a dollar. Mr. Mansur says about 85 cents. Let us say it is 75 cents. As it is today, banks have to pay about 3.5 per cent.—A. If they are the long-term ones.

Q. So the banks are getting a premium of 40 per cent for taking these mortgages. Would the witness consider that a fairly substantial inducement to the banks to take over new mortgages?—A. I would not like to express a view on that, but I would like to add this, that the banks' holdings of government securities are, in the main, short-term. They find it extremely useful to have these highly liquid securities up to a certain proportion of their deposits, for various reasons which I need not go into. If they have an adequate amount of those for the purpose of liquidity, then in looking around as to the means in which they employ the balance of their funds they have many opportunities, and opportunities which they would consider safe. They might not have the full safety character of a government guarantee, but they are all right; so that the mortgages, even with a government guarantee attached to them, have to compete for their attractiveness with a number of other things as well.

Q. There is still a 40 per cent increase over the long-term bonds.—A. Granting your premises, that would be about it.

Q. Now, commercial banks could deposit these mortgages with the central bank and get a loan on them, could they not?—A. A temporary loan.

Q. A temporary loan which would increase their cash?—A. Yes.

Q. What would the banks pay for that temporary loan?—A. At the present time the banks pay 2 per cent.

Q. You say they pay 2 per cent, and they get 5 per cent. The banks can also make loans.—A. Perhaps I should emphasize that I am talking about loans for a couple of weeks.

Q. What would be the longest term of a loan that the banks would get?—A. Oh, I would think, theoretically, 6 months but a bank would not borrow for such a length of time.

Q. But they could keep on shuffling it and continue borrowing on it?—A. No. Banks would not do so. For one thing, I am sure we would not like it; and for another, if it was so rapid a shuffle, it would really be a pretty constant loan.

Q. You said earlier today, Mr. Towers, that you thought that the loan from the banks would come from their notice deposits?—A. Well, it is rather difficult to say,—in fact it is impossible at any given moment to say whether the loan comes from its notice deposits or from its demand deposits. Rather I was referring to the fact that in other countries it is quite customary for a proportion of savings deposits which tend to be steadier in amount to be employed by savings banks in the mortgage lending business; and I suggested that if the sum total of mortgage loans by Canadian banks was not a large proportion of savings deposits, then according to the views in many other countries, nothing very dangerous or radical has been done.

Q. And they would be amortized as well?—A. I think by the time the Banking and Commerce committee is considering the next revision of the Bank Act in 1964 that the proportion would not have gone to a point which would cause the committee concern, and that the whole picture could be reviewed then.

Q. You consider a percentage of 25 per cent as being quite modest?—A. I consider it to be an unlikely high figure.

Q. But there is a possibility.—A. In the next 10 years.

Q. Presumably they could lend up to 10 per cent of their notice deposits?—A. I think so.

Q. You mentioned \$300 million, which would be 6 per cent?—A. Well, it is just a figure which I picked out of the air for a fairly short time ahead.

Q. Well, Mr. Towers, I am picking one which is rather more generous, 10 per cent. If the bank notice deposits, let us say, are roughly \$5 billion, then 10 per cent of that amount would be \$500 million; and if that were to be advanced over the next 3 years for the building of houses, it would result in the building of some 60,000 houses altogether, while our housing program is in the neighbourhood of 100,000 houses. Therefore these additional bank mortgages would mean an addition of only 60,000 houses over a number of years. Therefore the number would not be very great.—A. First of all, would a loan of \$500 million produce no more than 60,000 houses? Does that allow for any equity?

Q. I am simply going on the basis of about \$8,000 per mortgage.—A. Let us say about 70,000; and secondly, there is the question of turnover, because if \$600 million is advanced over a period of 5 years, a certain amount is going to be paid back. Therefore the amount outstanding would be less than \$600 million.

Q. Let us assume there would be a turnover, Mr. Towers; but surely the mortgages would be long-term mortgages?—A. Well, yes, but they are amortized.

Q. Yes, they are amortized, so the revenue funds would not add up to more than a certain number of houses in each year. I assume that the notice deposits of the banks are there and that the most you can expect, working on the assumption of my figures, is that the banks are going to lend about 10 per cent of their notice deposits which would mean an increase of 60,000 to 70,000 houses in Canada.—A. Turnover comes into it year after year. If I have to accept the assumption of 10 per cent, and if I have to accept the supposition that savings deposits do not increase, then, getting out my pencil and paper, the thing just sort of adds up in the way you suggest, Mr. Stewart.

Q. Yes.—A. But there are two things: I would not care to say that 10 per cent is by any means the limit; and I also believe that if prosperity continues as we hope and believe it will, then savings deposits are going to increase.

Q. Yes, there is that possibility, but on another occasion some of us were not so optimistic.

The CHAIRMAN: It all depends on how you look at it, Mr. Stewart.

Mr. STEWART: Yes, whether we are sitting here or over there. But a "substantial" addition of houses through bank mortgages is not going to be phenomenal.

The WITNESS: I do not know what you mean by "phenomenal", but I should think it would be substantial.

By Mr. Stewart:

Q. I shall not ask you to comment on a political observation. But we have to build about 100,000 houses a year. And it would seem that the best we can hope to get is 70,000 houses over a period of a number of years, so it will not add very much. With that, I shall cease for a moment, Mr. Chairman.

The CHAIRMAN: Now, Mr. Macnaughton.

By Mr. Macnaughton:

Q. Mr. Chairman and Mr. Towers, I have one general question on which, if you can see your way clear to give an expression of opinion, in view of the high position which you occupy in Canadian economic life, it would be very helpful.

There are quite a few rumours going about that the government is contemplating pump priming, and that under this bill which we are now considering the banks are being used for that purpose, that is to say, the banks are being used as an inflationary force. Would you care to comment on that?—A. I have no idea. All I know is that in the discussions I have had, even in the early stages of the matter, that was not one of the considerations.

Q. It seems to me that Mr. Fleming was more or less on the same point but of course in different words. And your answer to him a short time ago was that the net result of this bill might be a higher level of business without upward pressure on the price level. Do you hold to that opinion?—A. Yes, I do, but I would broaden it by saying that any improvement in our financial machinery, and improvement in our banking services must all make their contributions to that end.

Q. Well, it was just a rumour and I thought it would be rather useful to have your opinion on the table, and that if we can say that this bill is a useful bill, it is much better.

The CHAIRMAN: Now, Mr. Follwell.

By Mr. Follwell:

Q. Mr. Chairman, I had one question which Mr. Towers has partially although not fully answered. Perhaps he might answer it in a very few words. The question is: what in your opinion is the lowest interest rate that could be charged on these loans to give a reasonable profit to the lender, and to make it attractive to the borrower, so that we can get the maximum number of homes built for the lower income group?—A. I do not know, sir.

The CHAIRMAN: Mr. Michener.

By Mr. Michener:

Q. I am interested in the possibility of more American funds being available for house building in this country, and I would like to ask Mr. Towers to express

an opinion on that subject. I understand that there have been guaranteed loans in the United States for house building?—A. The various things there over the years have been so complicated that I cannot answer that question from memory. They have had a number of governmentally-assisted financing schemes for construction.

Q. So, the American investor to some extent is accustomed to a guaranteed or insured loan?—A. Yes.

Q. In view of the general interest of American capital in this country which has been evident over the last few years, what would you think of the prospects of a substantial amount of American funds coming here for this type of insured mortgage loan?—A. There again I have to answer I do not know, but perhaps for different reasons than my last "I do not know". There may be some. I would not at this moment be inclined to think that the volume would be large, but I could easily be wrong.

Q. Is there any money of that kind that you know of, any capital, coming into Canada that is being loaned on residential construction?—A. As far as I know there is not.

Perhaps Mr. Mansur could answer that.

Mr. MANSUR: I do not know of any, of important quantity.

By Mr. Michener:

Q. Is that on account of the dollar discount?—A. There are other reasons. Even on occasions when our dollar was at a discount and their funds were coming in for financial investment, they were going into bonds and other things rather than into mortgages.

Q. If such a movement took place what would be the mechanics of it?—A. If an American wanted to get one of these mortgages?

Q. Yes?—A. I suppose he would go to one of the holders of mortgages, an insurance company or bank or trust company and say "may I buy some of the mortgages from you" and if they said "yes" he would buy.

Q. Then they end up with a government guaranteed security paying whatever the rate is fixed at?—A. Yes.

Q. Which I think would be a pretty attractive sort of an investment to an American wanting to invest in this country and make a fair amount of money in government securities.—A. Yes. They have not recently been buying government Canadian dollar securities anyway. If an American bought one of these mortgages he would have to realize he is more tied up than in a government bond and in addition of course there is the exchange rate risk.

Q. Yes, but over a long period it is a pretty good risk. I take it that your opinion is that we cannot expect any substantial amount of housing money from the other side of the line as a result of this new legislation?—A. I cannot see that probability, no.

Q. The other question I wanted to explore briefly was, whether we had made full use of trust funds in our house building program in the past, and I mean funds that are under administration as trust funds rather than the capital of lending loan and trust companies. Now, we have had Mr. Mansur's evidence here and the loan and trust companies have been lending a great deal of money on mortgages, but they have under administration assets which are vastly greater than their own funds, and then there are a great many individual trusts of one kind or another with, I should think, a very substantial amount of funds available for lending, and it seems to me that under the Housing Act in the past that the best use has not been made of those funds, and I would like to suggest that as another source of supply other than the savings in banks. I would ask your views on that?—A. I am not familiar with how much trust companies have done in the way of putting such funds into mortgages, or what the provincial or individual restrictions may be with

respect to a particular account. I really do not know that factor. I should think that the existence of insured mortgages would encourage the use of funds of the character you mention so long as there are no legal restrictions.

Q. That is a problem of course, what are the legal restrictions that apply in the provinces to trustee investments?—A. Yes.

Q. I do not know if that subject has been dealt with here?

The CHAIRMAN: No. It is new.

By Mr. Michener:

Q. Perhaps Mr. Towers would not like to be bothered with it. Anyway, have you been thinking about the available supplies of new mortgage funds and have you considered the trust funds as being perhaps of equal potential as the funds that may come from the banks?—A. No. I had not. Whether it is pension funds or other things of that kind; in that way I was vaguely thinking of trust funds as well. I would think that over the years more of that type of money would be employed in this type of thing

Mr. MICHENER: Thank you.

By Mr. Hellyer:

Q. This morning Mr. Macdonnell referred to the intrinsic value of insurance mortgages, and I wonder if Mr. Towers would compare the intrinsic value of government mortgages with the intrinsic value of government bonds?—A. From the point of view of security about the same. The only difference would be the very small loss the insured mortgage holder might take by foreclosure. From the point of view of return, one might expect a difference because of the difference in liquidity and a certain difference in the cost of servicing comes into the picture; and last but not least the question of investor's preference. So that I do not see how anyone could with confidence say in advance what the exact differential would be. I think that is something which has to work itself out in demand and supply so to speak. I was going to say in the marketplace, but of course these will not be traded.

By the Chairman:

Q. Mr. Towers, earlier in the day I think Mr. Stewart raised the question of the amount of money that Central Mortgage expended last year and its share of the building of a 100,000 houses. Assuming that our minimum target is 100,000 on houses for 54, \$60 million was the contribution of the Central Mortgage to the joint loans; \$50 million was the contribution to a direct loan; making an approximate total of \$110 million. Did I understand you to say earlier in the evidence, before Mr. Stewart questioned you, that you did not think there would be any difficulty about the banks taking up that tag, or making that much available for the immediate future?—A. If they found it desirable business. I suggest that \$100 million is by no means an impossible figure in a country where within a period of 12 months banks loans increased between \$500 million and \$600 million.

Q. Between \$500 million and \$600 million? Without having to consult any records, can you tell us off hand how quickly our savings have increased?—A. Yes. May I go back to 1949 and cover the next four years?

Q. All right.—A. During that period the increase was \$700 million.

Q. Can you tell us what that is in percentage?—A. It equals something over 15 per cent. Incidentally, in taking that period from 1949 to the end of 1953, I am including the 12 months of the year 1953 in which the increase in savings deposits was only \$110 million. I might say by way of explanation that that was affected by the heavy sales of Canada Savings Bonds which took place in November. In earlier years the tendency has been for savings to increase on an average of a couple hundred million dollars a year.

By Mr. Stewart:

Q. Do you envisage a similar increase in the next four years?—A. Yes, unless the public develop a preference for holding other things than savings. They did develop a certain preference in that direction at the time of the recent Canada Savings Bond issue. I think that from the record of history the public is unlikely to develop a preference for anything other than a savings bond issue. Leaving savings bond issues aside, and assuming continuance of satisfactory conditions, I would expect a substantial increase in savings deposits each year.

The CHAIRMAN: Mr. Johnston, just one minute.

Mr. JOHNSTON: I have just one short question.

The CHAIRMAN: No questions are short, but I am prepared to listen.

By Mr. Johnston:

Q. I would like to know, Mr. Towers, what opportunity there is under these insured mortgages for the private individual to get possession of them? It seems to me there is a large pool of money available in Canada by private individuals, if they had some place to invest it to the degree of insurance. What is there under this bill which would permit individuals to share in these insured loans?—A. It is open to any individual to try to buy one of these.

Q. Did you say, "to try to buy"—A. Perhaps I should say, to make a proposition to any of the lenders to buy such a mortgage from them. Now I have not talked to any of the insurance companies about this, but I assume when they make one of these mortgages they probably keep it. I do not know what business will develop so far as the banks are concerned, but there certainly is nothing to prevent a bank selling a mortgage or a block of two or three mortgages to a customer.

Q. Supposing the rate of interest, which we will say is $5\frac{1}{2}$ per cent because I do not think it will be less, and that is the amount of return the bank is receiving from an insured loan, and a customer or client wants to buy one, what would the rate of interest be to the client?—A. That I do not know. I suppose that is a question the banks still have to work out, or perhaps they could answer, but I do not know the figure.

Q. You would not have any general estimate? I can understand that you would not know definitely, but would you have a general idea?—A. Oh, I think it would be better if the people who were going to be doing the business and handling the expense of it, try and form a view on that, rather than my making a guess.

Q. But the point would be, if the banks were going to charge enough what they might term as administration cost, they could bring the return to the individual so low the individual would not be interested in it, and therefore you would be losing a tremendous pool of resources which you would not be able to get?—A. Yes. I would hope that whatever the "fee", you might say, is, that it would be one which would cover the bankers' cost, giving them something for their trouble, but be as reasonable as possible to encourage the development of exactly the thing you have in mind.

The CHAIRMAN: The banks are very anxious to please their customers.

Mr. JOHNSON: Not that I have noticed; they generally please themselves.

The CHAIRMAN: They would not get along very well if they did not please their customers.

When you are asking your questions, you are not very helpful to the Chairman when you keep talking about $5\frac{1}{2}$ per cent. He is having enough trouble trying to sell the idea of $5\frac{1}{2}$ per cent. I thought this committee would at least hope for that low rate.

Mr. CRESTOHL?

By Mr. Crestohl:

Q. I believe Mr. Towers has already answered the question I have in mind, but I would be grateful if he would answer again. To what extent, if any, would the mortgage encroachments on bank funds invade or restrict the availability of funds for ordinary commerce and development throughout the country?—A. I would say not at all.

Mr. MCLRAITH: That was my question.

The WITNESS: I say that for various reasons. As I mentioned earlier, in non-inflationary conditions, the banking structure of the country would be large enough to respond to all legitimate demands and secondly, and this is a personal opinion, I think the relationship of the banks with their commercial customers are such that they would make certain they were not prejudiced.

By Mr. Crestohl:

Q. Going from that, Mr. Towers, banks generally request security for loans. There is a certain amount of money loaned without that degree of security, by way of overdrafts, or let us say, guaranteed under section 88 of the Bank Act. Would bankers therefore be more interested in lending their money, with a government guarantee, rather than having their money outstanding on overdrafts which are risky, or even under section 88, which, of course, does not compare to the governments' guarantee?—A. Well, if one regarded the cake as a cake of a given size, so that if something was loaned on mortgage it would mean they couldn't lend to the customer under section 88, I think even then their preference would be for the customer. But it is not a cake of a given size. It is a growing cake, and moreover if the customer is a good one, there is always the threat that if the bank won't make the loan, some other bank will, whereas the mortgage scheme is not in the same category.

Q. I was concerned with the temptation of the bank to seek the avenues for making loans where the bank receives the best guarantee, and that would, of course, be mortgage.

The CHAIRMAN: Mr. Michener?

By Mr. Michener:

Q. Mr. Towers has given a view as to the possibilities of this view. I would like to call his attention to another aspect of the bill, which, as I understand it, increases the period for payment on a house up to 25 or 30 years. I think probably 25 years is the normal amortization period, but it might run up to 30 years. That is an extension of instalment buying in the field of real property, and as I understand it, instalment buying is a very important element in the finance policy of the country and has been the subject of a good deal of government control in the last few years. Would you care to express any opinion on that feature of the bill that encourages more instalments and longer term instalment buying on another form of property?—A. I think I would like to make the reply in two sections. One relates to the general economic picture. If the sum total of all the demands from the people in the country for building houses or buying automobiles, are not in excess of what the country can produce or import, why then, "fine". To the extent that it is done on credit, there is the risk that people might get tied up and that you pay a price in 1956 for a certain prosperity in 1954. On the other hand, one would hope that with a growing population, and I would hope an incentive for capital development of all kinds, including houses, that you keep pushing that along in an expanding way. Certainly if there is room for the production of the things which the

people want to buy on credit in 1954, it seems a pity that they should not do it, and we should have a lower level of business as a result of a fear that in 1956 we will not find employment for our funds.

Q. I suppose it does make our economy somewhat more vulnerable by reason of the fact that more people have their credit pledged farther ahead?—A. Yes, it does.

Q. And if there were a deflationary move, there would be a great many people affected by it?—A. I think Canada and the United States are more vulnerable than, shall we say, those countries with lower standards of living, in two respects; one, because when a banking credit structure is highly developed, the kind of thing you mentioned can take place, and with a higher standard of living there are more things which people can forego for a while.

Q. Assuming there was some recession, it would not take much to put in jeopardy the equity that a lot of purchasers would have in their houses, and you might find that the effect would be cumulative and the Central Mortgage and guarantee funds could be called on perhaps very extensively—I believe it could be called on to the extent of \$2 million under this bill?—A. I have not got the figure in my head.

Q. Assuming the worst, would that be a disastrous situation in the economy of the country?—A. I would say that that represents a situation very similar to the early thirties. It is not one where an individual, perhaps through bad luck or perhaps through his own fault, has fallen down; this is something affecting a very considerable mass and is, therefore, an indication of a very general and serious depression. I would say it would have to be tackled on an ad hoc basis if such a situation arose, and, secondly, I should say it must not arise.

The CHAIRMAN: With this further difference, at least we would have houses. The last time we had nothing to show for it after it was all over.

Mr. CAMERON: I wonder if you could bear with me for a moment? I am as the beasts that perish among the higher branches of finance.

By Mr. Cameron:

Q. What I want to find out is this, Mr. Towers. What takes place when one of the chartered banks deposits with the Bank of Canada government bonds, because this leads to the question I have in mind? By a frightful stretch of your imagination, I would like you to imagine that I have become the general manager of a bank, I have a hundred thousand dollars worth of government bonds, my directors have decided we are going into this housing business, and we present you with a hundred thousand dollars worth of government bonds. Just what is the procedure; what happens then? Do you let me have \$98,000, or something of that sort?—A. You visualize that as general manager you ask for a loan from the Bank of Canada?

Q. I am asking whether I could just deposit them and draw—A. I think in that case what you would do, if you were the general manager of a bank which was a little short of cash, which God forbid, and wanted to make the mortgage loan, you might decide to sell a hundred thousand dollars of government bonds in the market. The Bank of Canada might be the buyer, or we might not, but in any event, having sold them, you would get cash through the clearing.

Q. I thought I could make arrangements through the Bank of Canada for a long-term loan.—A. No.

Q. How long?—A. A few weeks or a month.

Q. That is the point I wish to make. I had difficulty in reconciling your statements with what Mr. Winters had said in introducing the bill in the House, and where he mentioned that in order to make provision for the liquidity of mortgage portfolios, mortgages would be placed in the same category as government bonds, and mortgage portfolios of the banks would be eligible for

loans from the Bank of Canada as is presently the case with government bonds. Now, that covers all the cases that would be involved in that?—A. Yes. What I am really—

Q. There would be no other distinction between government bonds and these mortgages?—A. No, so far as collateral is concerned.

The CHAIRMAN: Mr. Fleming.

By Mr. Fleming:

Q. Mr. Towers, you have based your view that the lending operations of the banks under insured mortgages will not detract from demands for funds for development of other kinds.—A. Yes.

Q. On the view, as I understand it, that you can depend on an increase year by year in the total of savings deposits. Will you make comments on two other factors that seem to have a direct bearing on the situation?—A. Could I interject one thing there?—that in good times I would expect an increase in savings and the other deposits. If times were poorer, then the demand for commercial loans from the banks would drop.

Q. I am afraid you have spoiled my question now. You anticipated it. I wished to ask you for your specific comments on two things: one, the possibility of recession, the other, the possibility of increased demands on the banks for capital for national development apart from housing.—A. The banks are not normally providers of the capital for long-term development. That is something which, as you know, comes from the market. So, if we can visualize good times, then we do not need to visualize the lowering of the banks' loans to industry and commerce, and so on; but I would visualize a sufficient increase in deposits so that the mortgage loans would fit in too. As I think I said earlier, if we were in the midst of a real inflationary push, with bank credit going up rapidly, the bank would be trying to restrain that, in which case those people desiring to obtain mortgage loans and those desiring to obtain other loans would in a sense be rationed.

Q. There are other relative factors that are going to qualify any decision made in that field?—A. That is perfectly true.

By Mr. Monteith:

Q. I was just wondering if, in your opinion, the fact that the banks in the United States have been investing in real estate, shall we say, mortgages and that sort of thing, had anything to do with the fact that they were not able to weather the early thirties too well.—A. There are so many factors in that American bank picture that I am going to make my reply brief, and therefore cannot cover the ground properly. In one of the few studies that have been made of The American banks' lending experience in residential amortized mortgages, the loss ratio has been extremely low. So they did not get into their trouble simply because of lending on residential property on an amortized loan basis. The reasons were many others, but not that one, although an individual small bank which had gone in too far on non-guaranteed mortgage loans could easily have gotten into trouble just the same as they might in connection with industrial accounts.

Q. But there was the fact of the liquidity of those holdings. You mention a lot of the long-term residential securities. They did not suffer from that alone. Is that not right?—A. Yes.

Q. The whole over-all picture did contribute to those long-term residential holdings, in your opinion?—A. No, I do not think you could single out any one portion of their assets which you could say contributed in a major way to that wholesale closure of banks. No. 1 was for a certain bank to fail because it

handled its affairs badly. No. 2, was for other people to get worried about other banks. And No. 3 was for the bank inspector to come in and mark down the securities to a point where the directors would say that the bank was insolvent, and away they go.

Mr. FRASER (*Peterborough*): There would not be any long-term loans back at that time.

The WITNESS: On mortgages?

Mr. FRASER (*Peterborough*): Yes.

The WITNESS: I do not know how long the customary term was.

Mr. FRASER (*Peterborough*): I think it is five years.

By Mr. Tucker:

Q. Section 4, subsection (2) of the bill reads as follows:

4 (2) The rate of interest prescribed under subsection (1) shall not exceed the interest rate on long-term government bonds

(a) by more than $2\frac{1}{4}$ per cent in respect of loans made under Part I.

If that is passed in its present form, what is the maximum rate of interest under present conditions that could be set?—A. Well, Mr. Tucker, strangely enough, it is about $5\frac{3}{4}$ per cent.

Q. I have one further question.

The CHAIRMAN: The chairman is not giving up.

By Mr. Tucker:

Q. Under similar circumstances, what are the maximum rates chargeable to people who want to build homes under similar government legislation and so on in the United States?—A. I wonder if Mr. Mansur might answer that question.

Mr. MANSUR: Under the present F.H.A., there is a statutory fixed maximum rate of $4\frac{1}{2}$ per cent. This maximum rate is net to the lending institution and it does not include the $\frac{1}{2}$ of 1 per cent insurance premium on the reducing of the balances.

Under the proposal which the President of the United States has made to the Congress it is suggested that the F.H.A. be changed to almost identical form to that which is contained in subsection (2) of section 4 of Bill 102.

My recollection of the recommendation of the presidential committee on housing to the President was that the rate would be long-term government plus $2\frac{1}{2}$ as a maximum. Now I cannot tell you, Mr. Tucker, as to whether the figure was changed when the President made his recommendation to the Congress.

By Mr. Tucker:

Q. Thank you, Mr. Mansur. And that brings up another question that has been in my mind a great deal. These opinions are based on the yield of long-term government securities which in the United States at the present time are about $\frac{1}{2}$ per cent under ours, are they not?—A. A shade more I think, but not much.

Q. Could you not give us the figures on that? If this bill is passed and based on United States dealings in long-term government securities, what would the maximum rate be?—A. May I have your question again, please.

Q. If this bill is passed and is based on United States yield under long-term securities, what would the maximum rate be?—A. This is not their longest term, but their 1968's in January were 261.

Q. And the difference there is what?—A. I think their longer term would be—I should be able to give you that—270, or something of that kind.

Mr. ADAMSON: That is not their tax free bond?

The WITNESS: No.

By Mr. Tucker:

Q. And ours is what?—A. Let us say 350.

Q. If our money is at a premium, and the fact that we balance our budget while they have not balanced theirs for several years, and considering the relative handling of our finances over the past 30 years—

Mr. FLEMING: Including over-taxation here.

By Mr. Tucker:

Q. Why is it that our offerings have not been so operated as to bring down the yield of government securities in this country to a level with that of the United States?—A. Well, when a country is a large debtor and is alongside a country which is a tremendous creditor and which has vast sums available for investment, it is usual to find that the debtor country's securities sell on a somewhat higher yield basis. The variation in the yield between the two markets has been quite considerable. Sometimes it has been $\frac{1}{2}$ of 1 per cent and sometimes it has been a bit less at a time when money was easy; but sometimes it would be more when money was tight. It is normal for a debtor country, even though it is a very fine country, to have yields slightly higher than the creditor country.

Q. I am used to hearing that. It makes me wonder what happened to government bond yields in Great Britain since the second great war as compared with our bond yields. Great Britain today is in a much worse position in regard to other countries, I think, than we are, yet I wonder what her bond yields are over a long term?—A. They have been, at times, well over 4 per cent, within the last four years. They have had recoveries recently, and I see that their medium term bonds, around what I would call medium, are about 363.

Q. And what about their long-term bonds which we referred to?—A. I have not got here what their longest terms are but it might be $3\frac{3}{4}$ per cent.

Q. Well, with theirs at 3.63 and ours at 3.50, does that account for the difference between the yields? Is it solely as you stated? Is that all the difference between our position and the position of the United Kingdom?—A. Well, the internal monetary policy can and does, of course, have an effect on yields. Now, in the case of the United Kingdom, they are still surrounded by the stone wall of exchange restrictions while we are not. And if for example the monetary policy here endeavoured to bring our yields down to the American level or below, I would expect that the Americans who owned Canadian bonds would sell them. They bought them in the first instance because they got a slightly better yield than they could get on their own government bonds. If Canadians had not the facilities to absorb that selling on a large scale, I would expect that the differential would be restored.

Q. When our money is at a premium with United States money, it makes it difficult for our exporters. Would it not be a very good thing if some of these people who own Canadian bonds should sell them and get our money back?—A. They have been doing a certain amount of that.

Q. What would be the harm of giving them an inducement to get rid of the rest of it?—A. I say that the market in recent times has been giving them a lot more inducement because Canadian bond prices have gone up; of course the American's have too.

Q. What I wonder about is this: when a half of a per cent is so important in regard to people being able to provide homes for themselves and when the whole thing is concerned with internal monetary value—A. I said that only in regard to England.

Q. We have an internal monetary policy here and the only effect would be it might help the sale of government bonds. With Canada going industrially the way she is it seems there is no lack of investment in Canada. The only thing we have to fear is Americans selling the Canadian bonds which they have. It seems to me that the advantage to the people who might be able to build homes for themselves would be able to offset that?—A. There is a lot more to it than that. Canada is doing very well, but at the same time we have had a deficit in our balance of payments last year. The figures are not yet certain, but I think it must be something not far from \$500 millions. So we really need a substantial amount of incoming capital. It may be that it would have been just as well if the amount of the capital desiring to come in had been a little smaller so that it did not press so hard on the exchange rate. But to say at this point that we could disregard the American level of rates and have what we wanted here as low as or lower than theirs, meaning that no Canadian borrower would borrow in the United States and United States owners of securities would sell here, we might find ourselves in a fix which would only be cured at considerable cost to the country and a fairly massive change in the exchange rate.

Q. The thing is that we got along very well and it was very helpful to us in our foreign trade and to producers generally when our money was at a discount of ten per cent. Surely there are not enough government bonds held in the United States to make that change?—A. The interest rate level of course affects not only bonds held in the United States but also any decision by Canadian borrowers with respect to borrowing in that other country. So changes in interest rate have very substantial effects in that field. I would have to naturally, as you can understand, steer clear of expressing any view as to what encouragement should be given to a depreciation of our money. That may come up again later.

Mr. FRASER (*St. John's East*): I would like to ask Mr. Towers whether the residential mortgages accepted by the United States Savings Bank at the time of the collapse had any government guarantee behind them?

The WITNESS: No.

Mr. FRASER (*St. John's East*): Have they now?

The WITNESS: Not all mortgages, but a very large number, yes.

Mr. FRASER (*St. John's East*): Thank you.

The CHAIRMAN: We have been very fortunate today in having Mr. Towers with us. I am sure he impressed the committee and if his answers have not completely pleased all of us, the manner and understanding in which they were given certainly has.

Mr. FRASER (*Peterborough*): He made one answer that did not please you.

The CHAIRMAN: He is the expert, and it has been an education to have him before us. Some of the members have said some very nice things about Mr. Towers. I want Mr. Towers to know that all the members of the committee share that view.

Gentlemen, tomorrow morning at eleven o'clock Mr. Atkinson, president of the Canadian Bankers' Association, will be here and we will sit all day.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9.

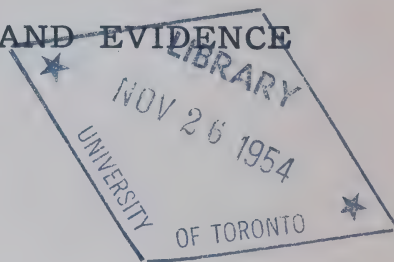
BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

FRIDAY, FEBRUARY 19, 1954

WITNESS:

Mr. T. H. Atkinson, President, Canadian Bankers' Association.



MINUTES OF PROCEEDINGS

FRIDAY, February 19, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hees, Hellyer, Henderson, Low, Johnston (*Bow River*), Macdonnell, McEachen, Macnaughton, Matheson, McIlraith, Michener, Mitchell (*London*), Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Mr. T. H. Atkinson, President, Canadian Bankers' Association; Mr. D. B. Mansur, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Atkinson was called, made a short statement on the bill under consideration, and was examined thereon.

At 1.00 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m., Mr. David A. Croll, Chairman, presiding.

Members present: Messrs. Adamson, Balcom, Benidickson, Cameron (*Nanaimo*), Cannon, Dumas, Fraser (*St. John's East*), Gagnon, Henderson, Low, Johnston (*Bow River*), Macdonnell, McIlraith, Michener, Mitchell (*London*), Philpott, Quelch, Stewart (*Winnipeg North*), Thatcher, Tucker, Weaver, Wood.

In attendance: Same as at the morning sitting.

The Committee continued the examination of Mr. Atkinson.

At 4.30 o'clock p.m. Mr. McIlraith took the Chair.

At 4.50 o'clock p.m., the examination of the Witness having been completed, he was retired, and the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, February 23, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 19, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. Our first witness today is Mr. T. H. Atkinson. He is the first vice-president and general manager of the Royal Bank of Canada as well as president of the Canadian Bankers' Association. He will read a short statement to you at this time.

Mr. T. H. Atkinson, Vice-President and General Manager, Royal Bank of Canada, called:

The WITNESS: First, Mr. Chairman, although I am President of The Canadian Bankers' Association, I would like to make it clear that I appear here today as General Manager of The Royal Bank of Canada and any views and opinions I may express relate to that institution. I am not in a position to speak for all banks, only for the one I represent.

Traditionally the role of the chartered banks in Canada, so far as financing is concerned, has been confined primarily to the short-term field. As the Honourable Members of this Committee will know, we have been prohibited by the Bank Act from lending on mortgage security—either directly or indirectly—and this prohibition has been entirely acceptable to us. The proposed legislation which is now being considered by this Committee is, therefore, a very distinct departure and, in fact, entirely foreign to our experience of the past.

When it was announced by the Prime Minister on October 1st last and simultaneously advised to the banks on the same day by the Minister of Finance, we had not any prior knowledge that such a move was being considered by the Government. As I have intimated, such a move would not, I think, have been sought by the banks, particularly at the present time, when the chartered banks in Canada are relatively fully loaned—certainly in our own case it would not have been sought.

However, that statement is not intended to mean that we are opposed to the proposal. Since the announcement, our representatives have been working closely with departmental officials in a sincere effort to assist in setting up machinery which, in our opinion, will be workable and enable us to do the kind of job the Government would wish us to do.

As your deliberations proceed, you will undoubtedly find that certain parts of the legislation will not be entirely favourable from the banking standpoint. It is more than possible that the subsequent regulations, which after all will form a most important part of the plan, will contain provisions subject to the same comment. However, as I have said—and speaking for my own bank—every effort will be made to give the plan a fair trial and make it work.

It will be apparent to the Honourable Members of this Committee that, inasmuch as deposits in the chartered banks are virtually payable on the demand of depositors, there are, very definitely, limits beyond which prudence will not permit the banks to make advances for long terms. Just what those limits

should be, it is difficult to say arbitrarily but I think it would be wrong for anyone to conceive that a substantial proportion of the available loaning funds in the banks can be made available for the purposes of the Bill.

We are given to understand that provision will be made for the lodgment of the mortgages by chartered banks as security for loans from the central bank but, generally speaking, as loans from a central bank to a chartered bank are presumed to be of comparatively short duration, I am confident that it is not the intention that the central bank should carry for an indefinite period these mortgages as security for loans to banks.

There appears to be in some quarters a view that the banks have a very large pool of savings deposits which can be made available for mortgage lending. I think I should point out that this is a misconception. It is true that the savings deposits of the banks aggregate something of the nature of five billion dollars but this money is not lying idle. Basically it is on loan to commerce, industry and individuals on the one hand and to governments and municipalities through the banks' holdings of securities on the other hand. Bill 102 will simply set up another avenue for the employment of funds. The banks must decide what percentage of loanable funds can be channelled into this new avenue, having in mind firstly—and most importantly—the necessity of maintaining a strong liquid position for the protection of depositors and, secondly, the requirements of commerce and government for the development of the country as a whole.

I welcome the opportunity of appearing before this Committee in an effort to do anything I can to assist in your heavy task. It seems to me of the utmost importance that the legislation and regulations should be such that the approved lenders will be enabled to do the maximum job for the good of the country.

I might say, in order to clarify the record, Mr. Chairman, that I am speaking entirely for the Royal Bank of Canada because I would feel inhibited in trying to answer questions if I always had at the back of my mind this thought: would this answer be satisfactory to other member banks? And I might say that this particular statement was submitted to the general managers of the other banks for their information. Therefore they know what I am saying at the start.

I might also say, in order to clarify the record, that this statement was made and printed before yesterday, so my reference to Central Bank loans would not have been in this form if I had had the prior evidence of Mr. Towers. But I felt it was wiser to leave it there and I think that what I say about central bank borrowing was amply forecast by the governor yesterday.

The CHAIRMAN: I have on my list Mr. Macdonnell, to be followed by Messrs. Macnaughton, Weaver, and Fleming.

Mr. McILRAITH: Will you please put me on the list, too, Mr. Chairman.

The CHAIRMAN: Yes, Mr. McIlraith. Now, Mr. Macdonnell.

By Mr. Macdonnell:

Q. Mr. Atkinson, you have emphasized on page 3 of your brief the necessity of the banks maintaining a strong liquid position. I have always understood that the prohibition against lending on mortgages by the banks was directed to the end that their liquid position would be maintained as strongly as possible. I think we accentuated that in the bad years back in the 30's or thereabouts when American banks went down.

Would you be good enough to say a word or two in amplification of the obligation which the banks have, and what you consider is a reasonable way of complying with it, and in particular would you mind saying a word about the fact—if it is a fact—that you feel it to be desirable or necessary to keep the rate of liquidity of reserves well above the 5 per cent which is prescribed by law?—A. Mr. Macdonnell, to take the last part of your question first, as you know we are required to keep 5 per cent of our Canadian deposit liabilities on deposit with the central bank.

Actually all banks keep approximately 10 per cent in order to have a great deal more safety than is prescribed by the law. And as to liquidity, generally, of course, as you know, our liabilities, be they the so-called demand deposits or time deposits are available as demand deposits.

It has never been the practice in Canadian banking to demand a notice for the withdrawal of so-called savings deposits. It is true that we have a very small proportion of our deposits in the form of real time deposits, that is, in the form of deposit receipts for a specific period of months or days, but that would represent only a very small proportion. So we effectively have all our deposits payable upon demand, I mean, at the depositor's demand.

For that reason the banks have always felt it necessary to have in addition to the legal reserves, what we call our second, third and fourth lines of reserve.

The second line of reserve is in the form of treasury bills of the Dominion government in whatever percentage management feels to be prudent.

The third line of reserves consists of a very substantial amount of government bonds of short-term, and a further amount in longer terms, but all, or practically all, within a period of maturity of 8 years, I would think.

Up to this minute we have had no assets of a long-term nature as allowed for or provided for by this bill.

MR. TUCKER: Mr. Chairman, I could not hear that last sentence.

THE CHAIRMAN: The witness said that they have had no long-term securities as provided for in this bill. It was the period of time he was talking about. Eight years is generally the period of maturity.

MR. MACDONNELL: If this bill passes or if the legislation to enable the banks to make mortgage loans is finally decided upon, would you favour or would you not favour a limit of the percentage, or do you think that should be left to the discretion of the chartered banks and the central bank?

THE CHAIRMAN: Percentage of what, Mr. Macdonnell?

By Mr. Macdonnell:

Q. Percentage of their assets that they should put into mortgages?—A. Generally speaking, I think, like all businesses, we prefer a minimum of regulations.

In our case I think we would prefer to have it as it is now proposed, that the percentage of assets that we might put into this be left to our own ideas of management.

Q. I imagine it would not be a fair question to ask you if you have a percentage in mind which you think should be made available, so I shall not ask you.

Would you say that the financing of commerce and production is the absolute top and primary responsibility of the banks?—A. We have always felt so.

Q. Do you regard yourselves as lenders only, or how do you avoid unintentionally becoming a partner in a business instead of a lender? My understanding has been that as far as the banks are concerned they have desired to have their loans paid off once a year?—A. Certainly it is the policy of all bank

management to have only loans on the books which they feel can be collected, and while repayment once a year was formerly pretty much a requirement of the banks, that I think is not quite as true today. But certainly a management which allows loans to go on the books which are not pretty readily collectible is not a good type of management. We do of course find in our experience each year that we have some uncollectible loans.

Q. So that having a 25 year loan on your books is certainly a brand new experience. Now would you care to say something to the committee as to the average length of loans. You have spoken in a general way about the several lines of defence from the point of view of liquidity. But would you say something in a general way? What is the ordinary time for which commercial loans are made? Are they on demand, or for so many months, or what is usual?—A. Loans to commerce with us—and I would assume with other banks—are in large measure on demand. They fluctuate up and down daily or weekly with the inflow or outflow of cash by that particular business.

In the case of personal or individual loans, the average term I would think would be 3 months, subject to renewal as agreed, if necessary at the expiration of the term.

But our policy is not to have any loan run beyond one year. I think that the amount of loans of one year, in our case, would be well below 1 per cent of our total loans. It is unusual to have a loan for longer than a 6 months period.

Q. If one regards your loans as being revolving loans, that is, being made and being repaid, do I understand your 1 per cent figure to mean that you would, within a year, have 99 per cent of revolving loans repaid?—A. Not necessarily repaid, Mr. Macdonnell.

Q. Well, repaid or renegotiated?—A. Renegotiated, yes.

Q. Would it be a fair question to ask how many are repaid, how much cash actually does come in?—A. That I am afraid I could not answer. That would require a lot of calculation.

Q. I do not think that it is an important question. What are the amounts of the current loans in your bank as compared with a year ago?—A. This is in my own bank, the figures relating to Canadian business only: \$890 million at the end of 1953 as compared with \$769 million a year ago, which is an increase of \$121 million in the year.

Q. That fits in with the figure Mr. Towers gave us yesterday of all the banks. Is there any noticeable change in the last few months?—A. Loans have tended down in the last three months.

Q. Tended down or levelled out?—A. Actually tended downwards, but that is normal in the early months of a year following the Christmas period, and without going into quite a lot of calculation I would not like to venture a guess whether it is more than the normal percentage drop in the last few months. I am inclined to think it is a little less than normal, but pretty well normal for this season of the year.

Q. Would you care to comment on the statement made in banking circles that banks are pretty well loaned up to the hilt and if further loans are to be made they will have to be made out of credit created by the Central Bank?—A. I think it is pretty well recognized that Canadian banks at the moment are regarded as being pretty fully loaned. As the Governor said yesterday there is no arbitrary figure or text book which says what is the proper percentage that a bank may carry in loans and be considered to be not overstepping the bounds of prudence. It may vary with conditions, but in our particular view today we are relatively fully loaned. Now, as regards the second part of your statement, it is the duty of the Central Bank, as the Governor mentioned yesterday, to see that bank reserves are sufficient to carry the normal and proper requirements of the country. Now, I could not say at what time the Bank of Canada would

regard it as proper to increase reserves or at what time they would regard it as proper to decrease the reserves. That is very definitely a decision of the Bank of Canada, having in mind the economic situation of the country.

Q. In your statement you said, "certainly in our case it would not be sought." I think you are referring to the power to make mortgage loans?—A. Yes.

Q. The Governor of the Bank of Canada spoke quite strongly yesterday in expressing an opinion that he saw no objection to the banks being empowered to make mortgage loans, and indeed he had felt that for some time. Have you felt that for some time?—A. No. We were happy going along as we were.

Q. Now, the position is that subject to the government guarantee you are being asked to go into the mortgage business not as you used to do it on a five-year mortgage but on a twenty-five or thirty-year mortgage, and I take it you regard that with consternation?

The CHAIRMAN: He did not use the word "consternation". Let him say how he regards it.

Mr. HEES: He can look after himself, Mr. Chairman.

Mr. MACDONNELL: That is the point. I will say that I thought you, Mr. Chairman, gave me a wonderful example in leading questions yesterday. However, I must remember I am not the chairman and should not ask leading questions.

The CHAIRMAN: Quite right, Mr. Macdonnell. That is reserved for the chairman when clarification is necessary.

By Mr. Macdonnell:

Q. I am expressing the view myself, Mr. Chairman, that perhaps the banks would not be happy with twenty-five year mortgage loans. Still we come to the question of government guarantee. Now, it is on that point I would like to ask Mr. Atkinson one or two more questions. Mr. Bryden of Dominion Mortgage and Investments Association pointed out that there were certain possible catches in the guarantee, certain hazards that might arise; and I would like to ask you, Mr. Atkinson, if you have anything you care to say about that and, Mr. Chairman, with all deference this gets us to the question of the regulations which I told you I was going to be so unpleasant about, and I am hoping we are going to be able to make some progress with regard to the regulations today because, I take it, when we come to the guarantee that the substance of the guarantee is going to be in the regulations. Now, Mr. Atkinson, would you care to say anything as to the position of the guarantee—and I think this question arises from it the real question which is a question which has arisen before in this committee: in regard to these mortgages, which in public statements emanating from the government have been declared—or the intimation is that they were going to be declared—to be in the position of government bonds, what would you say as to the marketability of these mortgages as you see the situation today?—A. Well, I am forced to speak from a great deal of inexperience, because we know nothing whatever about this type of business. I think on that question we would say we hope that there will be a market developed for these mortgages that is outside of the approved lenders. That market to me is one of the most important things if this is going to do a job because there are very definitely limits beyond which the banks cannot prudently go in putting these mortgages on our books and carrying them for their full life. So that, Mr. Chairman, money will be available if a market can be developed. In that respect I think all I can say is that it is most important, in my judgment, that the form of the mortgage and the relative regulations be such that mechanically they can be sold and administered effectively and that the instrument will be made so that it is attractive to prospective buyers. In other words, if we are to do a job we must have a piece of machinery which is workable.

Q. Now, in your last answer you mentioned two or three things which are of great importance about which we know very little or nothing, and I am very much afraid we cannot be expected to. You referred to the form of the mortgage and to the regulations and to the importance of these things in creating the saleability which you hope these mortgages will have. It seems to me, Mr. Chairman, our committee is being treated like children if we expected to go through to the end of these meetings, without having the most important part of the whole evidence—the regulations. I am just working up my unpleasantness, Mr. Chairman. It is going to get worse and worse.

Mr. McILRAITH: It is rather delightful.

The CHAIRMAN: I am enjoying it.

Mr. HEES: He can get real mean.

By Mr. Macdonnell:

Q. You stressed this morning, as did Mr. Towers yesterday, the temporary nature of any borrowings which a bank makes from the Bank of Canada for the purpose of improving its own liquidity. I did not realize until Mr. Towers spoke yesterday how temporary it was, or perhaps how unusual it was. Would you care to say something more about this? I find myself having a little difficulty in visualizing the exact situation. Perhaps you could say something more about it?—A. From our point of view, borrowings from the Bank of Canada are available to us only as a very temporary measure to take care of some sudden demand which we have not foreseen. We have never regarded borrowings from the central bank as other than something which we wanted to clear off just as fast as we could, and by that I mean a matter of days. In our estimation it is only a provision to take care of a bulge, and I gather from the governor's evidence, exactly the same thing in his estimation. We would be most unhappy even if we were permitted to have on our books borrowings from the central bank of any sort of permanent nature.

Q. Well, that certainly fits in with what the governor said concerning the temporary nature of any accommodation, but it leaves in my mind a question unanswered. The statement certainly has been made by bankers that if money is to be found for these mortgages, it would really have to be "created",—I think that is the word used—by the central bank, the Bank of Canada. Judging from what you just said and from what was said yesterday, you cannot have something created for a few days to tide over a temporary emergency. That is not a creation of money, that is a temporary expedient. Therefore, I come back again to what seems to me to be a very important question. To what extent, without emergency arrangements, can money be found? You have said this morning that you regard your bank as pretty well loaned up. On the other hand, you have pointed out, as the governor did yesterday, that within the last year your current loans have gone up to something like \$160 million, I think it was. Now, is there any inconsistency between those two statements? You have been able to make additional loans of \$160 million in the last year, and am I right in thinking you would agree with the governor that the situation today is not any more inflated or over-extended than it was a year ago?—A. I think you are over-looking one thing. Borrowings from the Bank of Canada are of a very temporary nature and are expected to be such. Now then, I cannot speak of Bank of Canada policy, because it is not part of my job to out-guess or even to try to guess what the Bank of Canada would do in any given set of economic circumstances, but I think the Bank of Canada would be expected, in a situation where there are no inflationary pressures, to increase bank cash reserves in the normal way, which would then provide room for loans. That is done, as the governor explained. If they did increase bank reserves, they would presumably purchase a certain amount of Dominion of Canada bonds which would cause additional

money to flow into the bank thereby giving us additional reserves on which we could base additional loans. That is the normal and orthodox method of a central bank creating the credit necessary to take care of ordinary requirements, and that is always in the absence of inflationary pressure. I think I know what you have in your mind, probably, or perhaps I am trying to anticipate questions which were asked yesterday. Possibly I should wait until you have asked the question.

The CHAIRMAN: I think Mr. Macdonnell has his mind fixed on some inflationary pressures. Is that not what you have in your mind?

Mr. MACDONNELL: No, I am just trying to clear my mind, as I suppose everyone else here is, and the question that still puzzles me a little is this: the governor used language yesterday to suggest—and of course he was absolutely right—that in the case of emergency loans they would be purely of a temporary nature, but you are now pointing out that in the ordinary course of Bank of Canada policy they could, by open market operations, increase the base on which you and other banks could lend, and that would be a matter of general policy, as you say, having regard to the presence or absence of inflationary pressures. I hope that is an innocent statement, Mr. Chairman.

The CHAIRMAN: Yes.

By Mr. Macdonnell:

Q. I have another question. Would you care to say anything as to the likely course, to the best of your judgment, of real estate value and business in general which would be relative to the objectives of Bill 102. I recognize that is a large question, Mr. Atkinson, and you might not care to answer?—A. My knowledge of real estate is limited to my own house, I am afraid.

The CHAIRMAN: Gentlemen, I would hope that Mr. Macdonnell has exhausted the questions which were in your mind, but I do not suppose he succeeded. Mr. Macnaughton is next.

By Mr. Macnaughton:

Q. Mr. Chairman, Mr. Atkinson; I have three short questions which your statement seems to partially answer. It answers at least one of them, but I hope it might be of some purpose if I put my questions on the record anyway.

Question number one is: if the effect of this new housing legislation is to allow the banks to enter the mortgage lending field, is there any assurance that the banks will enter this field and make loans? You are not obliged to, it is entirely permissive?—A. It is our intention, if the machinery set up is workable, to give it a fair trial, as I said. We will certainly do our very best to make it work.

Q. I think that is a fair answer. Question number two is: is there any feeling that the banks are being forced into mortgage loans against their better judgment? There are certainly rumours to that effect?—A. I do not feel that.

The CHAIRMAN: That is good.

The WITNESS: As I have said, we would not have sought the business, but we feel, and always have felt, a very great responsibility to the public. I notice we have been referred to occasionally as "quasi public utilities." We have felt, and I am sure I speak for all banks in saying this, that we are not forced into this against our judgment, although we would not have sought it. If it is regarded as a good thing, we must of necessity in doing a proper job in this country, do our best to make it work.

Q. Question number three. What are the particular provisions of this proposed legislation to which the banks object, and why?—A. From the inception of the discussions on this bill, we have been disturbed—I think that is the proper word—by one of the provisions, and that is what is referred to

as "vacant possession." The bill, as you will note, covers insurance by Central Mortgage, subject to a discount, which will probably be covered by later questions; but that insurance is collectable only by the approved lender when he has achieved a vacant building and with proper title and such other requirements as may be called for. I think it is fair to say that we, as banks, have had to spend a great deal of money in trying to improve, and I think we have improved, our public relations over a period of years. It disturbs us to think that the only way we can obtain protection on a loan which may go bad is by putting a family on the street. Now, I recognize that, unless a home owner is to be permitted to occupy a place without payment, somebody must take that necessary action. We regret that the bill calls for the banks to do it.

The CHAIRMAN: It calls for the banks to do more than just that, Mr. Atkinson. It also calls for the banks to take whatever benefits there are in these mortgages.

Mr. McILRAITH: It gives them the interest. They collect the interest.

Mr. MACNAUGHTON: Are there any other provisions?

The WITNESS: We again are speaking from inexperience. We have had a considerable amount of thought given to the lack of protection to the approved lender in the event of provincial moratoria, let us say, over which we would have no control, and that if such a thing developed, as we see it, we would have no means of collecting our insurance. As I say, we are speaking from inexperience, and we do not know how important that is or how important it may be in the future.

Mr. MACNAUGHTON: Thank you Mr. Chairman.

The CHAIRMAN: Mr. Weaver. I then have Mr. Fleming, Mr. Stewart, Mr. McIlraith, and Mr. Hees.

By Mr. Weaver:

Q. Many of the questions in my mind have been answered, but I would like to be sure I have the right picture. I have here a chart taken from the paper, which shows the position of the chartered banks of Canada as of November 30, 1953, shown by monthly returns to the Minister of Finance. You will be familiar with this chart, no doubt.—A. I am not quite sure which one you are referring to.

Q. It gives the assets and liabilities of all the banks in Canada.—A. That is the monthly return?

Q. That is the monthly return. In this monthly return the total liabilities of the banks are given as \$10,700 million odd, and the total assets are given as \$10,700 million odd. The bill limits the total number of these mortgages to a value of two billion dollars. The insurance companies gave evidence here, I believe, that approximately \$400 million of mortgages were carried on their books, so that in the next ten years, say over a period of time, if they maintain that average and increase it, including the loan companies, probably the maximum position the banks would get in could be one billion dollars; would that be a reasonable assumption?—A. Over what period of time?

Q. Say the next ten years.—A. I could venture a better opinion if I knew what the bank's assets were going to amount to in the next ten years.

Q. Would it be reasonable to assume that, with the growth of the economy and with past experience, they might increase around two per cent a year?—A. I think that is not far off the mark of the last five years.

Q. Then would I be correct in assuming that if they increased at two per cent a year that would give the added billion dollars that I spoke of, the total assets and the total liabilities would then be in the neighbourhood of \$13,700

million? Now, this legislation would mean there would be another column in the assets headed "Insured Mortgages", is that correct?—A. I am not at all sure what bookkeeping will be used, whether they are to be shown separately or in one of the present headings. I am not sure at this minute.

Q. That would be included somewhere in the headings?—A. There would be either a separate heading or they would be included in one of the present headings. I do not know what will be decided in respect to that particular return.

Q. If they were included in a separate column, they would then total a billion dollars, if our assumption is correct and if the reserves were kept exactly the same as the percentage shown here. The total of the reserves here is given at \$625 million. Then at the same percentage your reserves would grow to \$800 million, would they not?—A. If your assumption is correct, I would say, "Yes".

Q. The percentage of these mortgages would then be about seven per cent of the total assets. Having in mind the fact that the dominion government long-term securities would be more than double the amount of insured mortgages held, would you, in your opinion, as a banker say that seven per cent of the banks' portfolio held in this type of security would be dangerous to the banks, or would that be at all out of line?—A. In ten years we will have a great deal more experience. At the moment, I think a great deal would depend in that statement on how much was in savings deposits versus how much in current business, and I think this mortgage loaning will have to bear a closer relationship to the savings deposits, which are less volatile than are demand deposits. If on that assumption you made an even division and got the time deposits up from approximately \$5 billion today to, let us say, \$6 billion at that time, speaking from my present inexperience, it would sound very high to me.

Q. One other question, Mr. Atkinson. Would many 25-year loans when amortized, in actual fact, be 12½-year loans?—A. I would think, definitely not. The repayment of principal on an amortized long-term loan is very small percentage-wise in the early years because of the weight of interest. It very definitely would not be half the term. I have not a table here, but Mr. Mansur, I am sure, could answer that.

Q. It would be about 60 per cent, or something like that, of the total period? You would not consider it as a full 25 years?

The CHAIRMAN: Actually, those mortgages amortized over a period of 20 years have in the main been paid in 12 years. That has been the experience of Central Mortgage.

Mr. FLEMING: That is up to the moment.

The CHAIRMAN: Yes, up to the present time.

By Mr. Weaver:

Q. You mentioned being fully loaned at the present time. Provided your security is sound would that not be the position you would like to see exist always? Is not lending the banks' business? Would you not like to be fully loaned all the time?—A. Basically, yes. If we have the foresight to observe depressed conditions coming, I would much prefer to be underloaned when we are entering into a period of that kind. Generally speaking we have not got that sufficient foresight to see it coming early enough.

Q. That is all. Thank you.

The CHAIRMAN: Now, Mr. Fleming.

By Mr. Fleming:

Q. Mr. Atkinson, you said this morning at the opening of your statement that it was submitted to the general managers of the other chartered banks.

Have you any reason to doubt that their views on the matters covered in your own statement would depart in any degree from the views which you have expressed in that statement?—A. Mr. Fleming, I have every reason to believe that they concurred because the ones I heard from said that they did, and the ones that I did not hear from, I would assume had they not concurred, they would have said so.

Q. In commenting on the subject of this departure from banking laws and practices of the past by the provision to have the banks make direct loans on mortgage security on real estate, have you in mind simply the interest of the banks or the interest of the general public as well?—A. The two, Mr. Fleming, are almost indivisible. We must, in operating our affairs, always have in mind the good of the public because it is by the goodwill of the public that we live.

Q. I take it from your comment that you did not seek it; and I think you would not have sought it; and that you are having in mind public interest as well as the interest of the banks as such?—A. I would say again that they are indivisible.

Q. Now we come to the question of the bank's participation. Let me say at once in the light of what you said that I realize you may not be prepared to commit yourself to anything which is too specific. But for the assistance of the committee I shall ask you to be as specific as you can in this respect. Have you arrived at any conclusion as to the extent to which your bank is prepared to commit funds for participation in this new scheme?—A. I can only say no, we have not arrived at any percentage that we might be prepared to allot to this new type. I can go so far as to say that yesterday several percentages were mentioned and in my judgment, until we can gather some experience, even the lowest was high.

Q. Did not Mr. Towers say that it would not be 25 per cent, but within that limit he would not be prepared to be more specific. Can you say anything more specific?—A. There was a later mention of 10 per cent, but in my judgment I still think that is high.

Q. You think 10 per cent is high?—A. Yes.

Q. You do not think it will be as much as 10 per cent?—A. Not until we gain some experience. But on the other hand, it could not possibly reach that amount for some considerable time. And in the course of gradual growth we may change our minds. We might have a different view.

Mr. HELLYER: You were referring to 10 per cent of savings deposits?

The WITNESS: That is right.

By Mr. Fleming:

Q. Is that view that you offered shared by the other banks too?—A. I do not know the desire of the other banks. I do not know what they might think.

Q. You are aware that the moment this bill comes into effect the government ceases to participate in lending on the present joint loans. Generally speaking it has been lending at the rate of \$60 million a year lately. Now, in the next 12 months, in your opinion, are the banks likely to lend as much as \$60 million to make up the amount of reduction in the total mortgage funds available?—A. The amount is well within their capabilities, but I do know what the demand is likely to be, nor the sources of the demand. I think that both factors will have a strong bearing upon what any particular bank will do. Therefore I think that any opinion which I might express probably would be only misleading. I simply do not know.

Q. You understand our concern about that, Mr. Atkinson, because we do not want to give up lightly what we have until we are sure that we are getting something better in relation to the objectives we have here, that is of 100,000

new houses a year?—A. I was rather surprised to think that at any given date the present practice was going to be suddenly changed over in that way. Once again I might have misunderstood Mr. Mansur, but I thought that there might be some continuing overlapping.

The CHAIRMAN: You mean a transitional period.

The WITNESS: A transitional period, yes. We expected it would be done in that way but I might have been wrong in that belief.

The CHAIRMAN: And you might not.

By Mr. Fleming:

Q. That would have to be considered as a factor when choosing the date of proclamation, because once the new Act comes into effect, then the power to make commitments under the old Act ceases. But if that is the case, have you any conception of what is likely to be the result of the total of mortgage funds available during the 12 months immediately following the new scheme once it comes into effect?—A. I think the only comment I could make is that once it is initiated, I think the result will be that the necessary funds will be made available but it will depend to a very large degree upon what demand will flow in our doors. We cannot go out and say: We will lend \$40 million on mortgages in the next two months, because we have no control whatever, until someone walks in the door and says: I want to get a loan. Until then we can do nothing.

Q. We have assumed in all our questioning on this subject that there is a continuing demand for something like 100,000 houses or more. There has been something said from time to time about the use of your branch offices, or the use of your branch banks as if they would become local mortgage lending offices. Have you given any consideration to the way your operations will be carried on so far as your branches are concerned? I understand there are something like 4,000 branch banks scattered throughout the 10 provinces?—A. Each branch, in our conception, will be a lending office and the mortgages pertaining to that district will be carried actually on the books of the branch office. There will be supervision over the branch manager because that is our normal way of operating. For instance, if a man came into, let us say, the Kamloops branch and said he wanted to build a house, his application, after necessary clearance with Central Mortgage and after the insurance was arranged—his application—or possibly before the insurance was arranged—but at some point, his application would of necessity go to our supervisor in Vancouver for approval. That is the way we operate with all loans. Our branch manager has a modest limit under which he may loan on his own authority, but the limit in most cases would be too low to take care of loans with which to build houses. In other words, the loaning limit of the branch manager would not extend, except in odd cases, to \$10,000.

Q. We are dealing here with mortgages on new houses. We are familiar with the percentages of the loans, 90 per cent on the first \$8,000, and then the mortgage would make up a fairly substantial amount. In all cases loans of that kind might come within the authority of the local bank managers to approve.—A. No.

Q. You think in every case those loans would have to go to the regional or local supervisor for approval?—A. Yes.

The CHAIRMAN: You mean for final approval.

The WITNESS: The manager would make his recommendation.

The CHAIRMAN: And it would then go to the divisional office for final approval, would it not?

The WITNESS: That is right.

By Mr. Fleming:

Q. How many divisional offices are there now?—A. One for each province except in the case of New Brunswick, Prince Edward Island, and Newfoundland.

Q. What do you conceive will be the manner in which the banks will operate in the way of administering the loans after the loan has been placed and insured? Is the bank manager going to keep an eye on the repairs to the property, the general repairs as well as collecting the payments of principle and taxes?—A. Providing the loan is not in default and providing all the requirements are met by the borrower monthly, I would not anticipate our managers being inspecting officers to see that the home was being properly operated.

Q. Are you familiar with the way in which mortgages do concern themselves in general, not with the detail of the house and repair, but in general with the way in which this property is kept up?—A. We are terribly inexperienced.

Q. The next question concerns this matter of your relationship to the Bank of Canada. You have made it quite clear that you realize now—if it was necessary to be told—in the light of the evidence given yesterday by Mr. Towers that if accommodation is given to you on application to the Bank of Canada it would be a matter at the most of weeks. What in general in your estimation is going to be the effect on the liquidity of bank deposits and the extent which that limited use of insured mortgages as collateral with Bank of Canada is going to have on the market for insured loans. You indicated you hoped there might be a market developed, I presume with your clients?

The CHAIRMAN: I do not follow your question?

By Mr. Fleming:

Q. There are two things I am dealing with. We are concerned here, I think first of all, about this matter of bank liquidity. We are also concerned, on the other hand, with the matter of developing what Mr. Atkinson said this morning would be desirable, the development of a market. I presume that is a market in which the bank would dispose of the insured mortgages from time to time to its own clients?—A. Yes.

Q. Could I have your comment, Mr. Atkinson, on the value of this rather limited use of the insured loans for accommodation with the Bank of Canada in regard to those two plans?—A. Practicably I would say it has no bearing whatever, because of the very temporary nature of any borrowings from the Bank of Canada. I agree entirely with Mr. Towers when he says that the banks would almost certainly not use these mortgages as collateral when we have so much in Canadian government bonds which are so much easier to lodge as collateral.

Q. You say it would have no bearing. What value would it have for the banks to be able to get this limited accommodation at the Bank of Canada on these insured mortgages as collateral?—A. From a practical point of view, none.

Q. No value?—A. None.

Q. May I come back to this question of developing the market. I think you have indicated it will be a market among your own clients, your customers?—A. Or outside people. I would hope perhaps some American or some European money might flow into such a market.

The CHAIRMAN: You will encourage customers?

The WITNESS: Or non-customers?

By Mr. Fleming:

Q. They may not have been customers before but you hope will be?—
A. Yes.

Q. I gather that you do not think of this simply as holding insured loans in your portfolio, but you will try to find a market for them, and the readiness with which a market can be found will depend on the readiness of the instrument and ease of transfer?—A. Yes.

Q. And that will depend on the form of the regulations?—A. Inevitably, I think.

Q. May I ask you this question about the effect on the price level of house construction that you may have estimated to follow from the accession of mortgage funds from the bank to the mortgage market; you will recall that Mr. Towers yesterday pointed to certain factors and said that on the one hand there is an accession of funds in the mortgage market for investment which might have an effect on reducing the interest rates, other things being equal, while on the other hand the accession or upward demand in the market through the lowering of the down payment and other features might have the effect of increasing demand and presumably in that way creating an upward pressure on the cost of construction of houses. What conclusion have you reached in your study of this question, first as to the likely effect on the cost of construction on the introduction of this new scheme?—A. I am afraid I have reached no conclusions at all. I cannot say that particular aspect of the matter has given me any thought at all.

Q. What do you estimate will be the effect of the introduction of the new scheme on building interest rates payable on mortgages? You are aware of the fact that under the present scheme of joint loans the share of the lending institution's earnings is at the rate of $5\frac{3}{4}$ per cent?—A. I would not think that the banks entering this field would have any effect on existing mortgage rates. I would think that the normal movement of interest rates generally would have more effect.

Q. Can you see anything in the present set-up that is going to affect the course or movement of interest rates on mortgages and real estate?—
A. Well, I cannot really, no.

Q. I take it then that you look for probably a continuation of the present rate under the new scheme?—A. Subject to any change in normal interest rates.

Q. I realize that there are other factors. You cannot eliminate everything else. I am asking you for your best opinion in the light of existing conditions?—A. I would not think that this bill would affect interest rates.

Q. One more question on this matter of the enforcement of the mortgage security in the case of default. You have indicated that you regard that as a rather disagreeable task and one not likely to help the bank's public relations. Have you any suggestions to make in that respect for improvement of the scheme outlined in the bill?—A. If I might be allowed a facetious comment, I would rather Mr. Mansur would do it.

Q. Perhaps we had better leave the question. It is obvious that this is going to be one of the bitter parts of the pill. Whatever sugar there may be, this is not going to be one of the aspects of it?—A. I think that is a fair statement.

The CHAIRMAN: The banks have for many years dealt with liabilities running into millions and have sometimes been on the verge of taking necessary disagreeable action. They have much experience in not doing disagreeable things. In their dealings they are as reasonable as anyone else, and I do not foresee difficulties with these mortgages. I am sure they will attempt to work it out, as difficulties arise.

By Mr. Fleming:

Q. Then that leads me, Mr. Chairman, to put this question to Mr. Atkinson. Are you aware of the position you will be in under the bill if you do attempt to work out these figures by giving an extension of time to the mortgagor?—

A. As I understand it, the bill itself is rather rigid in its requirements; that certain action must be taken if we are to retain our insurance coverage. I cannot say I have had time to give sufficient study to the bill to be entirely certain of these rigidities, but I believe they exist.

The CHAIRMAN: Mr. Stewart?

By Mr. Stewart (Winnipeg North):

Q. Mr. Atkinson, would you agree that today the commercial banks have a perfectly good liquid situation?—A. Perfectly covers a lot of ground.

Q. But from the conservative banking point of view, do the banks of Canada feel their situation is quite satisfactory?—A. Entirely satisfactory, yes.

Q. And would you say the same has been so through the last few years?—A. Oh yes.

Q. Would you think there would be any danger of the banks almost drowning in liquidity in the last few years?—A. I had not thought of it in that light.

The CHAIRMAN: It seems a very pleasant way of drowning if that can be pleasant.

Mr. HEES: What a wonderful way to die!

Mr. FLEMING: We usually associate drowning with watered stock.

By Mr. Stewart (Winnipeg North):

Q. Have you felt the need of any avenue of investment in the last few years other than that offered by the Bank Act?—A. No.

Q. You tell us in your brief you are not opposed to this legislation. Are you in favour of it?—A. I don't know that I would want to go beyond what I have already said. We would not have sought it.

Q. But should it be a compulsory piece of legislation, you will do your best to carry it out?—A. Yes.

Mr. FLEMING: It is just a pill he has to take.

By Mr. Stewart (Winnipeg North):

Q. You had no prior knowledge that this was being done. Did it not shake the foundations of orthodox banking?—A. It was a surprise.

Q. Now, if you had heard or seen the evidence of Mr. Towers, in which he states that he, at least, regards this security, which he terms as akin to "gilt-edged" as sound, would you continue to feel surprised. Do you feel happy about it? Of course, you have not seen the evidence so perhaps it is not fair to ask you.

The CHAIRMAN: He has heard the evidence and I presume he is happy about it. He is happy to come before the committee.

By Mr. Stewart (Winnipeg North):

Q. Have you had any chance at all to figure out what it would cost the banks to service these mortgages?—A. No, that is one thing on which we have absolutely no information. I have been most interested in hearing the estimates given, which in one case was .60 to 1 per cent, and I think Mr. Mansur mentioned .85 per cent, but those two guesses, or perhaps I should say estimates, are based on an existing portfolio. All I can say is, at the moment, our costs

in the early months or years while we are amassing a portfolio, will be very substantially higher than that. It is quite obvious with a very small amount on the books, we will have very heavy percentage costs.

Q. Can you give us a rough idea as to the make up of your investment portfolio?—A. You mean as between loans?

Q. Let us exclude loans for a minute and refer to dominion bonds and other securities.—A. As at the close of our year we had 26·35 per cent in government of Canada obligations, and 10·7 per cent in other securities. That would be provincial, municipal and corporate securities. We had 30·7 per cent in loans in Canada.

The CHAIRMAN: What does that mean?

The WITNESS: Commerce, business, personal, call—loans of various types.

By Mr. Stewart (Winnipeg North):

Q. Out of that approximate figure of 26 per cent of government bonds, had you any long-term bonds?—A. Nothing longer than 1963, which is 8 and a fraction years, and basically they average about 3 and a fraction years or just about 3 years.

Q. When you begin to issue mortgages, have you any idea yet what part of your portfolio will suffer the most? Will it be the dominion bond area or the current loans area?—A. That is impossible to state. If we assume, as the governor said yesterday, that there are no disturbing inflationary pressures at the moment, then I think we are safe in assuming that the Bank of Canada would increase bank reserves to take care of these loans as they come about, in which event it would not be necessary to disturb any avenue of investment. The pinch might come if and when inflationary pressures appear, when it becomes Bank of Canada policy to decrease reserves in order to keep things from running away, in which event the pressure will come on all avenues of loaning, mortgage as well as business.

Q. One of the things we are interested in is finding out what addition to the housing of Canada will result from this legislation. Yesterday I suggested 10 per cent of savings deposits would be available for mortgage lending but you think that is perhaps high. Let us take for instance, the figure of 6 per cent which would mean, in my judgment, an increase of 35,000 houses. But this 6 per cent of your savings deposits would not, of course, be spent in one year, two years, or even three years, but over a number of years. Is that right?—A. I would not know at what speed this would take effect. A lot would depend on the type of demand and various other factors.

Q. Let us assume the greatest speed possible, which would mean the loaning of that money in one year, which I do not conceive really as a probability, the fact remains that this 6 per cent of your savings deposits, could only be used once and would not be a recurring feature, assuming your savings deposits remain the same?—A. Well, on that assumption, I would say that you are close to it, always subject to what our experience may be.

Q. And if we were to enter into a period of declining prices and there was some stringency on the money market, would you feel it good policy to continue investing as heavily in these mortgages as you might now?—A. I would think in such a condition we might be very aware of the greater probability of default.

Q. But the commercial banks would not look upon this scheme as a means of putting money into the economic system to maintain purchasing power? You do not regard that as part of your duty?—A. No, it is not our job.

Q. Would it be a fair inference to take from your statement, from the point of view of building houses that your statement was one of modified pessimism? I can see that the Chairman doesn't like the question.

The CHAIRMAN: Of course he doesn't, and the witness shouldn't either.

Mr. STEWART (Winnipeg North): Then let me say this. I think this legislation is a piece of wool, wool of inferior quality, which is being drawn over the eyes of the Canadian people, and that is a point I shall prove.

The CHAIRMAN: That is your view, Mr. Stewart. I have Mr. McIlraith, Mr. Hees and Mr. Quelch on my list.

Mr. McIlraith?

By Mr. McIlraith:

Q. There is one answer that you have given this morning that I want clarified in my own mind. You said in answer to an earlier question by Mr. Macnaughton about this legislation that you would not have sought the business, and then you used the same expression in answering a question asked by Mr. Stewart. When you say you would not have sought the legislation or the business, I am a little in doubt as to what you mean? I know you did not seek it, that much is clear. You did not in fact seek this legislation?—A. No.

Q. Now, how long have you been general manager of the Royal Bank? A. Since October 1949.

Q. Would it be fair to say that during the last eight years your bank has carried on its business in Canada in a good economic climate?—A. Yes.

Q. And I think it is fair to say, a better economic climate than we have had over the last 50 years, or over parts of the last 50 years?—A. An entirely satisfactory climate.

Q. 15 to 18 years ago the economic climate was not so good?—A. I remember it well.

Q. Did you in your answer mean to say that the bank would not have sought or welcomed this legislation in that kind of economic climate?—A. What I meant by my statement was that this is not an avenue of loaning which appeals to an orthodox chartered banker, at least it does not appeal to me particularly, and had someone asked, "Would you like to have this avenue opened up?", I would have said that I preferred not to have it opened up. Does that clear up my feeling?

Q. That clears it up as far as it goes. What I am getting at is this: If your experience in this lending field turns out well—and I recognize that you are now going into a new field with no experience—it may well be that the banks will come to the conclusion that this was legislation that they should have sought?—A. That is possible. We have made mistakes before.

The CHAIRMAN: Will you permit Mr. Low to ask a question?

By Mr. Low:

Q. I don't want to interrupt, but if you don't mind; I have to leave at 12.30. I appreciate that, Mr. McIlraith. I did want to ask three short questions of Mr. Atkinson before I go away. Did I understand correctly, Mr. Atkinson, that you have had certain regrets, to put it, I think, in your own words, that the chartered banks will be required to take possession in any cases where one of these mortgage loans goes bad? Did I understand that correctly?—A. That is right. It is an unpleasant task.

Q. Yes, I can understand that, and I don't blame you at all. Do I further understand you to say that further reserves would have to be made available

to the chartered banks if they are to make any substantial contribution to housing under this bill? I am speaking of cash reserves.—A. Under today's conditions, if loans are to expand, further reserves are essential.

Q. I want to make sure I understood that. I heard you express some concern about the fact that there appears to be no protection against provincial moratoria such as would affect these insured mortgages. That is correct, too, is it?—A. As I understand it, the insurance would not be effective or we could not collect insurance if there were provincial moratoria.

Q. I can understand that. I want to put a short proposition to you, if you don't mind, to get your reaction. I am speaking at the moment of housing for low income people, but the proposition I put forward would also assist in the matter of increasing cash reserves. I speak of low income people who cannot get housing accommodation for themselves under Bill 102, because they cannot qualify on the ground, let us say, of low incomes and the fact that they cannot afford the interest rate that appears to be in the offing under this bill. Now, I think that in all cases we should differentiate responsibilities. I think the government must, of course, accept the main responsibility for financing, as well as policy for the particular field of low income housing about which I speak. I suggest to Mr. Atkinson that the Bank of Canada make a loan to the federal government which the federal government in turn will loan to municipalities on a successive guarantee basis, that is, the municipality and the province joining in the successive guarantee in an aggregate amount which is carefully limited to the best interests of the economy as a whole, as well as housing for low income people. When the moneys loaned to the municipalities flow into the chartered banks, then the cash reserves of the chartered banks are increased and upon the basis of these increased reserves the chartered banks would then be able to provide money for housing under the terms of section three of Bill 102.

I draw attention to the rather substantial unemployment in the country today and suggest that my proposal would be an effective counter to growing unemployment, and at the same time would succeed in providing the increased cash reserves which will be required if the chartered banks are to make their contribution to housing under this bill. What is your reaction to that?—A. I am completely lost, Mr. Low.

Q. Would you see in the proposal some effective means of getting the increased cash reserves which will be required?—A. Mr. Low, I would prefer not to comment. It is mixed up with government policy, something which orthodox bankers carefully avoid.

Q. I understand that, Mr. Atkinson. I quite appreciate that policy enters in, and all of this, of course, is predicated upon the adoption of policy; but what I want to get over if I can is, what I would like to find out is if there is anything technically to prevent such a proposition as that from being adopted in the country?—A. I can't comment on that.

The CHAIRMAN: Mr. Low, you put that question to the Governor of the Bank of Canada, and I think you received a rather satisfactory answer.

Mr. Low: It was not the same proposition.

Mr. QUELCH: I put a different proposition. I went more into the technique of other steps that might be taken.

The CHAIRMAN: I thought Mr. Low dealt with that question when the Governor of the Bank of Canada was at the table and I thought he rather agreed with you.

Mr. Low: There was a different suggestion, however. It was not tied in with the provision of cash reserves for the chartered banks. This one is, and

at the same time it is designed to assist the low income people to get houses, which they simply cannot get under Bill 102. That was what I was trying to get at.

The CHAIRMAN: I do not think we should reach the conclusion that the low-income people will not receive housing under Bill 102. We have not finished with the bill yet.

Mr. Low: As it is now, of course.

The CHAIRMAN: There are a few changes that might be suggested.

Mr. Low: I merely say: as it is now. I will not press Mr. Atkinson if he does not care to comment on that.

Mr. QUELCH: Might I suggest that the proposition I put before the Governor of the Bank of Canada was that a limitation might be put on the use of these cash reserves to try to prevent a too great expansion of loans.

By Mr. McIlraith:

Q. I wanted to pursue one line with you, Mr. Atkinson. I take it that in your view the success of this new field of investment for banks lies, among other things, in the market for the mortgage as an investment development; an easy, free market for them to develop. Is that correct?—A. I feel the success of the plan will be greatly enhanced if a market can be developed. It seems to me quite obvious that the banks will be able to loan more money if they are able to “melt” some of those loans which they have taken on their books.

Q. That is my own view too. I want to pursue that a bit further. You spoke about the form of the mortgage and the various forms incidental to the mortgage security. I presume you have in your bank some of the school amortized serial debentures in your own investment portfolio?—A. Oh yes.

Q. They are usually small in amount, but fairly numerous throughout rural areas in this country, such as rural school sections and rural telephone companies.—A. That is right.

Q. Have you thought about or visualized any change in the form of mortgage and mortgage technique to bring mortgage securities more into line with that type of school debenture?—A. I am afraid, Mr. McIlraith, that I am not sufficient of a technician to decide how that could best be done. But they seem to me rather to be two completely different documents. I think one of the things—and I am thinking out loud at this time—which might prevent that would be the fact that this is not entirely an amortized debt of principle and interest. It has an element of prepaid taxes in it which I think complicates the matter to quite a degree.

Q. But it is possible over the years that we might be able to change the provisions with respect to principal and taxes.

The CHAIRMAN: That matter of prepaid taxes is quite common today. It would not have been 10 years ago, but it is today.

Mr. McILRAITH: I quite realize that, Mr. Chairman, but I am trying to come to some idea of working out a form of technique for these securities in such a way as to make them easily purchasable through the banks by small investors through the development of personal savings.

The WITNESS: I am quite hopeful that Mr. Mansur will be sufficiently impressed by that to do what I know he can do in getting a document which is saleable.

Q. Perhaps I can leave it at that. I take it that Mr. Atkinson has not had experience in this mortgage field, so we can leave it at that point perhaps without further questioning.

The WITNESS: Thank you.

By Mr. McIlraith:

Q. I have just one other point. The fear has been expressed that these mortgage securities, because of the government guarantee provision, will become so attractive to the commercial banks that there is some danger of the commercial banks not making available to new commercial customers ordinary commercial loans, but rather seeking to divert funds which would normally go into that normal expansion in commercial fields, seeking to divert those funds unto the mortgage investment field. Do you think there is any ground for such a fear?—A. I would not share that fear.

Q. You say you would not share that fear. That is all. Do you want to elaborate that answer?—A. No, I think not.

Q. That is all. Thank you.

The CHAIRMAN: Now, Messrs. Hees, Quelch, Fraser, Tucker, Gagnon and Henderson, with a few more after that.

By Mr. Hees:

Q. I would like to deal with the question of the central bank doing your inspections and appraisals for you. Are you completely happy with Central Mortgage doing your inspections and appraisals instead of doing them for yourself, presuming you are given the time in which to build up staffs in the same way as the other lending institutions at the present time?—A. I personally am quite happy about that provision.

Q. I suppose it takes some of the expense off you if the government does it for you. But do you think, as a businessman, it is a good thing to keep the government as much out of business as possible?

Mr. McILRAITH: Except foreclosures.

The WITNESS: Generally speaking, I would agree with you.

Mr. HEES: Therefore, provided you were given the time to build up the necessary staffs, I think you would agree as a businessman that it would be preferable for the banks to do their own inspections and appraisals, because for the government to do them is not a good thing?

The CHAIRMAN: Please let the witness answer the question. What you are doing is, asking a question and giving the answer. The result is to confuse the witness.

Mr. HEES: Well, Mr. Chairman, other people have asked questions and then said: I would like you to comment on this.

The CHAIRMAN: Please ask the question and let the witness answer it.

Mr. HEES: Very well. I have asked the question.

The CHAIRMAN: Do you know what the question is, Mr. Atkinson? Perhaps you had better ask it again, Mr. Hees.

By Mr. Hees:

Q. What I said was this: would you not agree, Mr. Atkinson, that it is desirable to keep the government as much as possible out of business?—A. Yes, generally speaking.

Q. And you would agree then that allowing Central Mortgage to do your inspections and appraisals is allowing government to come into business?—A. Well, it would be physically impossible for some time for us to do it because we have no such personnel. And it seems as a layman in this sort of thing, that as long as Central Mortgage are going to guarantee the loan, they must of necessity be doing inspections. Therefore if inspections were

done by us as well it would mean a duplication, and the more duplication there is, I assume the more expense there is to the man who is building the house.

Q. How long do you think it would require to train a staff to do these appraisals, if you were going to do them for yourselves?—A. I have not the slightest idea of what knowledge a man must have in order to do inspections.

Q. Well, Mr. Atkinson, if it is satisfactory for you to have Central Mortgage do your inspections and appraisals, do you not think it would be only fair and equitable, if it became necessary to have an eviction, that the government should take the necessary steps by means of the same staff?—A. I would very much hope so.

Q. It would seem very reasonable as well as desirable. Isn't that right?—A. I have argued it at quite great length up to date.

Q. Would it not seem that the manner in which the thing is going to be operated at the present time is that the government, through Central Mortgage, is going to do all the pleasant things in the way of handing out the mortgage to the prospective home owner, while the bank will be forced to be the villain in the piece by doing the evicting?—A. I have already said that is one thing which we dislike.

The CHAIRMAN: You said to the witness, Mr. Hees, that Central Mortgage would be "handing out the mortgage" and the witness seemed to agree with you. Do you in fact agree that they will be doing that, I mean "handing out the mortgage"?

Mr. HEES: They are O.K.'ing the mortgage. Central Mortgage and Housing will O.K. the mortgage through their inspector?

The CHAIRMAN: They won't even do that.

By Mr. Hees:

Q. Yes. They are doing the appraisal and inspection and are going to say whether the mortgage is a satisfactory one?—A. I think my answer might have been misconstrued. We, of course, will be making the loan through our bank branch when it is approved. I did not mean to comment on that part of your statement at all. I merely said that we dislike eviction.

Q. And there seems no reason why the government should not do it as they are doing everything else.—A. I cannot agree that they are doing everything else.

Q. They are doing the appraisals, the inspections, and guaranteeing the loan and so on. Do you think it would be fair enough for them, if it became necessary, to do the eviction?—A. I think I made it quite clear that that is my thought.

The WITNESS: Definitely. If and when we achieve a set-up where we are doing everything, if that day ever comes, then we would not expect the government to do an eviction then.

The CHAIRMAN: I think we are putting too much emphasis on evictions. I do not foresee these evictions.

Mr. HEES: That is pre-election talk. That is the dream world you get into.

The CHAIRMAN: You see far fewer evictions when the government is involved than when private institutions are involved.

By Mr. Fraser (Peterborough):

Q. Mr. Hees has covered pretty well what I wanted to ask in respect to inspections, and Mr. Atkinson answered Mr. Fleming in regard to the application having to go from the branch office to the district office and that there

was one district office in each province. In the district office would you have to have a real estate department?—A. I do not know what you would call it. We intend to set up a special department in each province, yes.

Q. When we had the lending institutions here, Mr. Bryden mentioned in respect to a question I asked him that he thought the lending institutions would have to continue to have their inspections despite the fact that Central Mortgage was inspecting because they were the ones that were doing the paying and they would want to see the progress that was going on. That is practically what he said. Now, you feel that that would not be necessary on account of Central Mortgage doing the inspections?—A. We are so completely unqualified to do it that an inspection by any of our men would be, at this time, absolutely useless.

Q. In that case the most of the applications that would come in at the present time would have preference if they were close to the district office.

—A. I would not say that at all, Mr. Fraser.

Q. It would not be that way?—A. No. Our branch managers are very well qualified to represent their districts.

Q. I agree with you. We have an excellent one in Peterborough and also Lakefield. Much also was made of marketing these mortgages, these securities; and in marketing these securities would you have to sell them just to other lending companies because they have to be serviced all the way through? That was the belief of the lending companies as expressed by the witness we had here.—A. Our conception is that we would sell them to non-loaners.

The CHAIRMAN: The public.

The WITNESS: And we would retain, as we must under the bill, the servicing of them.

By Mr. Fraser (Peterborough):

Q. You would retain the servicing of them. They would not be sold through a broker as they are in the United States?—A. How the market would come about I would not know, but I see no restrictions on to whom we might sell.

Q. You have no idea what you would charge on those in selling?—A. I would imagine that a sale would be arranged at a selling price to yield such and such a percentage to the buyer. What we would have to retain as a service fee we will have to determine in the light of experience. At the moment we have not any idea.

Q. It would take you some months or perhaps two or three years before you could determine that?—A. Our first sale might be on a basis which would not permit us enough retainable earnings to cover the cost. We will have to determine, in the light of experience, the price at which we would be prepared to sell, and we may make our first sale too high or too low.

By Mr. Quelch:

Q. Turning to page three, you say: "There appears to be in some quarters a view that the banks have a very large pool of savings deposits which can be made available for mortgage lending. I think I should point out that this is a misconception. It is true that the savings deposits of the banks aggregate something of the nature of five billion dollars but this money is not lying idle. Basically it is on loan to commerce . . ." That means that an amount equivalent to \$5 billion of deposits is on loan, does it not?—A. In these various categories I mentioned, yes.

Q. In view of the fact that these savings deposits whilst being termed savings are actually demand deposits might it be considered wise to put a

definite time limit on those so that your position would be more liquid in view of the fact that you would be making long term loans. I understand that at the present time in practice, whilst people do draw their money out on demand it is actually stated in the pass book that the banks can require thirty days' notice.—A. It is so long since I have looked at a pass book that I do not know, but I thought it was fifteen days. In my experience of over 40 years in banking, we have never asked for notice, and I would hope that we would so conduct ourselves that we would never want to have any notice.

Q. And if you ever went into the long-term field and it appeared to be a wise provision to consider, you would not like to do so?—A. Mr. Quelch, I would think we were being very imprudent if we permitted ourselves to get into a situation where we needed to ask for notice on a savings deposit.

Q. I want to be certain I have your statements correctly. Is it fair for me to say that you feel that in order to make substantial contributions under Bill 102, you would require either to reduce the amount of existing loans and investments or indulge in credit expansions?—A. That is true. I wrote my statement without the benefit of hearing Mr. Towers, and I well recognize it is the job of the Bank of Canada to provide sufficient reserves, provided it does not conflict with the economy of the country, to promote this borrowing without the curtailment of loans in other quarters. I think it might be fair to the committee to say that if inflationary pressures are present and the Bank of Canada of necessity was, in accordance with their established policy, entering a period when they are contracting bank reserves with the idea of holding down loans and credit expansion generally, then in that case if we are to loan against mortgages we must, of necessity, take it from one of the categories we presently have our money in. And the curtailment will rest on somebody and bank management will have to decide on which category.

Q. I think you said that you made your loans on a short-term basis, and that you presume or surmise if this Act was brought into operation and it were necessary to extend your loans, then the Bank of Canada will take the steps to provide you with additional cash reserves?—A. That is right.

Q. And based upon these additional cash reserves there would be by the chartered banks an expansion of credit?—A. That is right.

Q. Perhaps you have not had time yet to consider what steps you consider will have to be taken by the chartered banks in order to make the operation of this Act successful. You say you do not consider it necessary to place any limitation in regard to the withdrawals of savings, but would there be any change in banking practice that you think you would have to make?—A. We contemplate no change whatever.

Q. I was going to go further with that question, but you say you prefer not to comment so I will leave it.

The CHAIRMAN: Mr. Tucker?

By Mr. Tucker:

Q. Would you agree, Mr. Atkinson, that during the past three or four years since the outbreak of the Korean war, there have been inflationary pressures present?—A. From time to time, more or less inflationary pressures have been present, yes.

Q. And of course I would think that if your banks had to deal with this legislation during that period, you would have had to curtail the expansion of business or loans to producers, or something of the sort. I take it you would not want to cut down on your investment in government bonds because that would interfere with your liquidity too much, and therefore during a period such as the last three or four years, if you were going to carry any substantial part of this question of the cost of housing, it would have to be at the expense of some other feature of the economy?—A. I think that is correct.

Q. And that brings up the thing that worries me very much, and that is the question of the farm improvement loans legislation under which, as you know, you loan at 5 per cent, with a partial government guarantee, to our producers, which has been most helpful to them in getting more fully mechanized. Now, in times such as the last three years, would there not be a tendency to curtail some of those loans?—A. As a general statement I am pretty certain that during the credit restriction period practically no evidence of that was seen. In other words, I think that our loans under the Farm Improvement Loans Act were not interfered with during that period one iota. We felt it necessary to curtail in other respects. However, that is one under which we felt we should not curtail. I am sure of that, in so far as my own bank is concerned.

Q. But if this was a competing field, just where would the curtailment take place? You would be under pressure to do your part in this field, which is a most important field, and with expansion going on there is a great pressure for housing, particularly in the larger cities, and doubtless you would feel you had to meet that pressure properly, to meet the demands of society as it was at that time. Where would you do your curtailment, that is the thing I wonder about? Would it be in the field of business which is expanding to try and meet the demands of the government upon it in meeting their problems, or would it be at the expense of your liquid position in cutting down government bonds? Where would be your curtailment, that is what I would like to know.—

A. We went through this period of credit curtailment in 1951 and 1952. Every bank every day meets many types of applications for loans. During a period of that nature it becomes the job of management to scrutinize the purpose of each loan and a banker then must decide which of the loans applied for has the most inflationary features in its purpose. For instance, thinking quickly and pulling one out of the air, if a company in such a period had a fully average inventory of goods and they came to a bank and asked for a \$1 million loan, the purpose of which was to expand that inventory as they felt that with the inflationary pressure they would ultimately sell those goods at much higher prices, then I would think any bank would say that type of thinking is sheer inflation and would turn the application down. That is the type of thing, if you can understand my illustration, that a bank under credit curtailment policy must wipe out.

Q. The fact that you might be getting 5½ per cent on these loans with the insurance feature, whatever it may be worth, as against 5 per cent simple interest on loans by farmers, the difference in the rate of interest, would not that have some effect on your attitude towards people applying for loans?—

A. I would think the difference in interest rates, and of course that is not necessarily a difference in earnings, because this type of loan, I think, will of necessity carry greater cost with it, and we do not know that cost feature, but I think under the circumstances you refer to, a modest difference in interest rate would not cause any bank to decide on a higher yielding type of loan, versus a smaller type of loan. I think any bank would consider the purpose of the loan and the safety of the loan, and all the other factors.

Q. Under the Farm Improvement Loans Act, that was one case where the banks were given power to loan on mortgages, is that correct Mr. Atkinson?—A. Yes, I believe the limit is \$4,000, if I remember rightly.

Q. Now, I had intended to look this information up myself, but you can answer quite easily. Have many loans of that nature been made, long-term loans on mortgages under the Farm Improvement Loans Act?—A. A report on the Farm Improvement Loans Act, dated December 31, 1952, shows 83,315 loans to a total of \$98¼ million in 1951, 75,063 loans to a total of \$85 million, and so on.

Q. I am asking now about these long-term loans that you can make for periods of up to, I think, 10 years on farm mortgages for farm improvement

purposes. I wanted to know to what extent you had entered that particular field.—A. This 1953 report for construction of houses only under the Farm Improvement Loans Act shows terms up to five years, 627 loans; for six to nine years, 84 loans; and for ten years, 7 loans.

Q. What was the total amount that was loaned in that year on those long-term loans?—A. The total amount loaned appears to be \$1,474,978.

Q. As against a total lending of \$98 million?—A. That is right.

Q. Then, of course, quite obviously, the banks were not anxious to enter this lending field on mortgages, judging by what has happened in regard to the farm improvement loans experience; is that correct or not?—A. Is the purpose of your question because of the low amount?

Q. Perhaps I should put it this way. Has the low amount that has been loaned in that field been due to lack of applications or reluctance of the banks to loan in that field?—A. I would say definitely lack of applications.

Q. Although they would get money at five per cent?—A. That is right.

Q. And although they are told the existing rate is around 6½ per cent. Can you tell the committee if there have been many refusals of applications under that Act?—A. To my knowledge, very few.

Q. My experience has been—I come from Saskatchewan—that the banks have been very reluctant to make loans in this field.

Mr. McILRAITH: In Saskatchewan.

Mr. TUCKER: I say that. Is that your impression, and if so is that restricted to Saskatchewan?

The WITNESS: My experience does not indicate that. Under this Act the banks made advances covering 25 per cent of the housing starts on farms.

The CHAIRMAN: In Saskatchewan?

The WITNESS: No, this is not confined to that province. I do not have it by provinces—yes, I have. There would be 192 loans for housing in Saskatchewan.

By Mr. Tucker:

Q. Out of a total of how many?—A. A total of 700.

Q. That is on farms in Saskatchewan. The total amount of loans is how much in Saskatchewan?—A. \$336,193.

Q. Now, another question I would like to ask you, Mr. Atkinson. It seems to me that the amount that has been loaned under this Farm Improvement Loans Act as compared with the total amount loaned would indicate to me that our banking system is really not set up or adapted to going into the long-term lending field to any great extent. I think that is true, it is not? It is not so organized or set up to go to any great extent into the long-term lending field?—A. By the very nature of the banking business, that is true. No banking system is adapted to that.

Q. Now, in some other countries, there is a distinction between a form of savings banks and a form of commercial banks, and the savings banks take deposits subject to three months' and sometimes six months' notice. That type of bank could more safely, of course, go into longer term lending; that is correct, is it not?—A. There may be something in what you say.

Q. I presume that that is correct, is it, that there are some countries where you can make deposits subject to withdrawal on three months' notice, for example. I think that is true, for example, in France, is it not?—A. I am afraid you have got me beyond my experience, I do not know.

Q. Well, when you are in a position where you feel you must—

The CHAIRMAN: Will you be long?

Mr. TUCKER: I want to take about another 10 minutes.

The CHAIRMAN: I am afraid we will have to adjourn. I have on my list Messrs. Gagnon, Henderson, Mitchell, Adamson, Michener, Cameron, and Fraser (*St. John's East*).

We will adjourn till 3.30.

AFTERNOON SESSION

The CHAIRMAN: All right, Mr. Tucker.

Mr. T. H. Atkinson, Vice-President and General Manager, Royal Bank of Canada, recalled:

By Mr. Tucker:

Q. Was I right in assuming this morning that the loans you made on real estate mortgages under the Farm Improvement Loans Act were the only loans which you made on mortgages?—A. That is correct.

Q. And as I remember the figures, you said that roughly \$98 million had been loaned last year, \$2 million of which was loaned on mortgages under that Act?—A. \$1,474,978.

Q. That means almost \$1½ million?—A. That is right.

Q. And the rest of the money, that is, over \$95 million was loaned on promissory notes under the Act?—A. That is right, covering extensions to farm buildings and that type of thing.

Q. Yes; and they would be secured by promissory notes?—A. Under the Act, yes.

Q. Now, the proportion of your loans then on mortgages at long-term, would be the proportion that \$3 million bears to the total assets of what?—A. Might I excuse myself for one minute, please. I want to correct the answer I gave you a moment ago. There is another Act under which we have loaned on mortgages. It is the Veterans' Business and Professional Loans Act. I said that the Farm Improvement Loans Act was the only Act under which we loaned on mortgages, but that is not quite correct. Let me see if I can get you some figures for what was done under the Veterans' Business and Professional Loans Act, if you are interested.

Q. I should have remembered that, too. But there was very little money loaned out on mortgages under that latter Act.—A. I believe that is correct.

Q. If you can get the figures before we are through today you can put them in. I shall not hold you up for them now.—A. I was glad to correct the statement I made.

Q. I am glad you did. And the proportion they would bear to your total assets would be as \$3 million to \$10 billion, isn't that so?—A. You are speaking of the banks as a whole?

Q. Yes.—A. Yes, roughly.

Q. And that is the extent of your experience in making loans on mortgages on a long-term basis?—A. For the purpose of the record may I repeat that this amount which you mentioned as small was actually 25 per cent of the total farm building starts in Canada financed from all sources. And 25 per cent appears to me to be a pretty reasonable proportion to be financed in this way.

Q. I am not belittling the contribution that was made in that field because I think that the Farm Improvement Loans Act was a very good Act and that it worked out very well. What I am trying to find out from you is the extent to which you entered that field on the basis of mortgage loans. I knew people who applied for such loans and were declined, and I was under the impression

that you had not made as many loans in the Province of Saskatchewan as you did. Were the figures you gave for one year, and if so what year?—A. They were for the year 1953, 192 out of a total of 710.

Q. There was something indicated that one of the hopes for a great deal of new money being brought into this field would be the possibility of a market being set up whereby these securities would be sold. Now, in view of the attitude apparently taken by yourself and by the loaning companies as to the possibility of the whole thing being upset by provincial moratoria, and the inability for that reason of realizing under the insurance feature of the proposal, and presuming the top limit charge for the money would be $5\frac{1}{4}$ per cent, it would seem that the margin over and above the cost of the money would be slightly over 2 per cent. In addition you would have to retain the servicing of the loans. So what margin is there to offer to a possible purchaser towards his taking that risk rather than simply buying a government bond? In other words, there is $2\frac{1}{2}$ per cent to work on but you would have to keep some of that in order to pay you for servicing the loan. How much is left to hold out by way of inducement to somebody to actually buy that mortgage?—A. I do not follow where you arrive at the $2\frac{1}{4}$ per cent, Mr. Tucker.

Q. That is the maximum amount which can be charged over and above the yield of long-term government securities.—A. Oh yes.

Q. That is the maximum which you could charge. Now you are going, as you said this morning, to loan at that rate, and then try to get somebody to buy from you, yet you have to retain the servicing of the loan for which you would have to retain some part of that $2\frac{1}{4}$ per cent. Do you think there is very much there to hold out to a possible investor by way of inducement to him to enter this highly—according to the evidence given us already—speculative field?—A. Of course, Mr. Tucker, I could not possibly estimate what demand there might be by purchasers. And as far as the rest of your comment goes, if we may take Mr. Mansur's estimate of cost as being .85, it would represent, if that is correct, a servicing cost which has yet to be proved.

Q. Yes.—A. But if that is correct, presumably a bank, or banks might regard the .85 as being a proper servicing charge to retain for the servicing of the loan, in which case presumably the purchaser would get 4.90. Whether or not a prospective buyer would regard 4.90 with this guarantee as being a better investment than a straight government bond, at 3.55, I would have no idea. We would hope to find buyers, but we do not know.

Q. Speaking as a banker of long experience, you have $2\frac{1}{4}$ per cent to operate on, and you have to take out at least .85 from that which leaves, roughly, less than $1\frac{1}{2}$ per cent. Now would you, as a banker of long experience, think there would be a great demand to enter this field and take on all this risk for only $1\frac{1}{2}$ per cent more than the yield of a long-term government bond?—A. I could not go beyond saying that I hope that buyers will be found.

Q. Well, I think I know what you must be thinking too. That is one of the difficulties as I see it. Great hopes are being placed upon the marketing of these obligations. And another thing I would ask you is this: the figure you dealt with this morning—I mean the .85—is based upon a considerable portfolio.

Now you believe it will be some time before you would be in a position where you could service as cheaply as if there was a considerable portfolio. Is that right?—A. That is correct, Mr. Tucker, and in this case we might have to make our early sales, if any, at a price which would show a loss on the operation of servicing, with the hope that the volume would grow so that eventually we would show a profit position.

Q. In view of the danger of provincial moratoria entering the picture and thereby preventing you realizing upon the insurance feature of this bill, and in view of the attitude apparently taken by the Bank of Canada that there would

be no idea of protecting you by long-term loans, I suppose that in view of the fact that even to cover you, you would have to endanger your public relations by foreclosure, and in view of the fact that this is going to make up but a very small part of your business, and in view of the fact that you could ruin your public relations by one eviction, I ask you just actually to what extent you think you are going to enter this business? We have been told that the mortgage companies are not going to put very much more into it.

The CHAIRMAN: Please let the witness answer the question.

By Mr. Tucker:

Q. So I would like to know to what extent you are likely to do it?—A. I could not possibly give you a dollar figure or a percentage, Mr. Tucker.

Q. I see.—A That would have to come from experience I can only repeat what I have said in my statement that we are determined to give it a fair trial.

Q. Certainly, yes. Now then, I ask you, Mr. Atkinson, if there was some provision under which either you or the mortgage companies could be sure of taking these mortgages that you might have taken and issue debentures against them and if necessary borrow either from the Central Mortgage and Housing Corporation or from the government or from the Bank of Canada say 50 per cent of the amount that you put into this field so that in the event of a setback or something like that it would not seriously affect your liquidity, that would make quite a difference in the picture?—A. We are prohibited by the Bank of Canada from issuing debentures.

Q. But, we are changing the Act in regard to lending on real estate. Suppose we asked you because you are the repository of savings of the people—and it is not feasible to say we are going to require notice before we let them draw out their deposits because of the long established custom of not requiring that—suppose we say when you enter this field we are going to give you protection by being able to go to the Bank of Canada or the Central Mortgage Bank and borrow on the same basis as your long-term security holdings, to the same extent as you put into this thing, so that if you ran into a period of recession you would not have to worry about covering yourself to the extent you went into this thing. Now, would that make you feel safer?—A. I do not quite see what protection you mean. But I suppose any means by which these things could be melted into cash would presumably be better from a bank's standpoint.

Q. Ultimately if you went into this scheme to try to do your part in the situation and then a period of recession came and there was a pretty extensive moratorium so you could not recover, I would think you would go to the government and expect some protection. As I say, if you put \$100 million into this scheme and later on there was a recession, anything that makes it possible for you to protect yourself—say you can go back to the government and borrow against the total amount you have loaned up to the extent of say 60 per cent of the amount and then you could take that—would not that at the start make you feel more safe in going into this field?—A. I would be doubtful about that because re-borrowing still leaves you with the liability. It seems natural if you can shift half of your liability definitely and absolutely you would feel safer and more comfortable. As for re-borrowing I am inclined to think re-borrowing merely adds to your load because by re-borrowing one places himself in a position where he only increases his liabilities.

Q. What I had in mind was when the extensive bank failures developed in 1933 in the United States it was found that the system could be saved by the federal reserve system advancing loans against the assets of the banks. That saved the whole banking system in the United States. Then, I take it that your desire to retain your position of liquidity is to avoid getting yourself into the position that the banks got into in the United States. In this particular

type of business which you say you would not welcome where you are told if you want to go into this thing you are not going to be treated in regard to this particular type of business the same way you are accustomed to, you are not going to the Bank of Canada and get a loan for a few weeks or a few days, but if you got into a recession or moratorium and were told: we are ready to advance you money against these loans to the extent of 50 per cent; then you would not have to worry about this liquidity, but I take it from your answer that would not be any help?—A. It would be more simple and more helpful provided it could be arranged to have the insurance cover those situations.

Q. The government figures that when you are making the profit on this thing that you should carry some of the burden or obligations and actually turn over to them a clear title. I can understand their attitude.—A. So can I.

Q. And I can also understand yours. When you have spent thousands and thousands of dollars building up good will you do not want to get into a position where you would enter this field to the extent of, say, five per cent of your business and lose what you have been building up for years?—A. If we re-borrow in bad times, and I assume that bad times will be around if there were provincial moratoria and other things, if we re-borrow and re-loan in those times we have doubled our liabilities and all our grief.

The CHAIRMAN: Mr. Tucker, how long are you going to be?

MR. TUCKER: I am almost finished.

By Mr. Tucker:

Q. However, I want to follow this up. I am very much interested in it. This is where we were going to look for the money and I think the history of the last depression was this: if all the various mortgage companies and everybody else had not been pressed unduly and had been permitted to carry their debtors they would have been able to come out without the losses they experienced. In other words, where the mortgage companies held on to the properties they foreclosed they got some of it back, but where they were pressed into selling they had to take losses. If the government said to the people entering into this scheme: we do not think a period like the thirties will occur again, but if it does we do not want you to be in a position where you will foreclose and we will tide you over so that you will not have to press others—so, this is the suggestion I make to you because this is going to be faced in the next year or so I think and I wonder what your attitude would be towards that suggestion?—A. I must repeat again that if it were a provision whereby somebody would take over half of our liabilities totally I think obviously by the very nature of the thing it would be a relief to the banks.

Q. But not a loan?—A. To simply re-borrow against mortgages in a difficult period I do not think would be regarded as being particularly helpful. I think we would be imprudent to allow ourselves to get into that position.

Q. One more question. In 1939 when we were confronted with a need of new money to be put into new housing it was provided then that the government through the Central Mortgage Bank would provide money to mortgage and loan and trust companies to re-loan provided they did not charge any more than a maximum of 2 per cent over and above what they got that money for and they could use existing mortgages to get this money from the Central Mortgage Bank to actually make further loans. In other words, that was, as I understand it, making for them the same provisions for re-discount as you have at the Bank of Canada. Now, what I want to ask you is this: is there any provision in the present legislation as you understand it for mortgage companies or trust companies to protect themselves by taking their portfolio

of mortgages to the banks and the banks loaning against these mortgages with the feeling that they, if necessary, will be protected by the Bank of Canada?—A. I know of no such provision.

Q. What do you think about the idea of giving some rediscount privileges in the long-term field to mortgage companies and trust companies, the same as you have under the Bank of Canada Act in the short term and intermediate field?—A. Our borrowing privileges with the Bank of Canada are very short-term, a matter of days.

Q. That is just the practice; but under the Bank of Canada Act, if necessary, if you were to run into a financial panic, they would have the right to advance enough to protect your depositors even to the extent of 100 cents on the dollar. That is correct, is it not? They have that power?—A. I believe if it is not there it could be obtained. I do not think it is actually in the Act as it stands at present, but I would think in the event of disaster that power might be obtained.

Q. I thought it was in the Act, but in any event we all face the fact that these things have to be prevented from happening as they happened in the past. What I have in mind is why not reassure all possible investors by spelling the thing out now so they will not be worrying about letting themselves and their shareholders and depositors in for something difficult, when we actually know that a crisis cannot be permitted to develop in the future as it has in the past.—A. I am afraid, Mr. Tucker, you are in the realm of government policy which I have to stay out of.

The CHAIRMAN: Mr. Gagnon?

By Mr. Gagnon:

Q. I have two short questions. Mr. Atkinson, do you feel that one of the reasons that so many banks failed in the United States during the depression was because they had such a large proportion of their assets in long-term mortgage loans?—A. That is a popular belief which to a degree I have always shared, without having gone into the matter closely enough to analyse it.

Q. Do you think the same thing could happen in Canada?—A. I should hope not.

Q. Are you in favour of long-term mortgage loans for your bank?—A. Generally speaking, I think I made it quite clear this morning, no.

Mr. GAGNON: Thank you.

The CHAIRMAN: Mr. Henderson, followed by Mr. Mitchell.

By Mr. Henderson:

Q. Further to your reply to Mr. Tucker, that you hope a market would develop outside of other lenders through you in these loans in order to relieve a long-term proposition, is it right to presume that that would come from individual savings, or corporation surpluses, or something of that nature? Is that what you had in mind?—A. I don't know that I had anything specific in mind. We have seen in this country over a period of years an inflow of funds for investment from Europe and the United States, and of course, we have always had available as well, savings in this country. I have nothing specific in mind except that I hoped from one or all of those sources there would be an interest in such things creating a market and therefore creating a situation where more money would be available without leaning on the banks to too heavy a degree.

Q. Then, further to that, Mr. Atkinson, due to this rate of interest which is somewhere, we presume, between 5 and 6 per cent, would that not from your experience have a deteriorating effect on the market price of Government of

Canada bonds?—A. I would think that the type of investor who would be interested in investment in mortgages, would be rather a different breed of cat from the one who is interested in investment in government bonds.

Q. To deal with another phase; I would like to jump over to the Farm Improvement Loans Act. I think Mr. Towers spoke yesterday very briefly on this. In your experience have there been many of these loans which have gone into default?—A. Very few.

Q. And in the event there are any of these loans in default, who institutes the action to collect by seizure, execution or otherwise?—A. Could I just consult for one moment before I make reply?

The CHAIRMAN: Yes.

The WITNESS: I am not personally very closely informed on this Act, but I am informed that under the Farm Improvement Loans Act in the event of default we merely transfer the debt and the government become subrogated in our claim as it stands and we collect under the government guarantee.

By Mr. Henderson:

Q. Who takes the action to make a collection by seizure? There must be a plaintiff.—A. Having transferred it to the government they presumably follow through from there on.

Q. They are named as the plaintiffs in these actions?—A. No. We transfer our claim to the government and they are subrogated in any security we may have and then they become the creditor and they may take whatever action they like, but there is no question about eviction from our point of view.

Q. I rather feel that sometimes the banks are named as the plaintiffs in these actions?—A. Named as plaintiff in what type of action?

Q. An action for collection under the Farm Improvement Loans Act?

The CHAIRMAN: Mr. Tucker, I hope you are listening to this.

Mr. TUCKER: It is true, is it not, Mr. Atkinson, before they pay you, you have to show you made some attempt to collect?

The CHAIRMAN: What is the practice, do you know?

Mr. TUCKER: That is what it is.

The WITNESS: I might say, without having had notice of that question, and without re-reading the Act as I would be required to do in order to give evidence on it, I simply do not know of my own knowledge. I presume we must take certain steps to try and collect, but as I understand the Act, there is no question of eviction before that happens.

Mr. HENDERSON: I understand, from my limited experience—and this might be the wrong procedure—the bank takes the action in the first place, if they have a loss, then they name the government as plaintiff?

Mr. TUCKER: I think they have to exhaust their security.

The WITNESS: If you would like a reply to that question, may I have notice of it and submit a statement to the committee later?

Mr. HENDERSON: You are really not new in the eviction field?

The WITNESS: There is no question of eviction under this Act, I am informed. If you would like a statement, I would be glad to have one prepared.

Mr. TUCKER: May I point out that the difference is this: under the Farm Improvement Loans Act you can carry it along as long as you want and as long as it is prudent, and it is only when you want to make a claim that the question comes up whether or not you have exhausted your security; whereas under this Act if you do not want to lose too much interest you have to act. That is the difference.

The CHAIRMAN: The initial action, it must be taken by the bank. I do not think there is any question about that.

The WITNESS: But no eviction—

The CHAIRMAN: I don't know what comes after that. Mr. Mitchell?

By Mr. Mitchell (London):

Q. Mr. Atkinson, we have been all around the subject of the actual insurance policy itself, but we have not had your views on that as such. You have mentioned various aspects of the bill, such as liquidity, foreclosure, and so forth which you are not happy about. Are the insurance provisions sufficient to offset to any degree the feelings which you have expressed on the subject of liquidity and others. Would you care to comment on the insurance aspect?—A. The insurance, of course, is an integral part of the scheme, and without any insurance I do not think it would be reasonable to expect the banks to participate. In answer to your question, it might be reasonable to say to the committee that for the purposes of clarity the insurance is not 100 per cent, as you know. In fact, as we understand it, it is not even 98 per cent. This is mentioned in the bill. I think if you will look at Mr. Mansur's original statement to this committee you will find that under the most favourable circumstances the loss to the approved lender in 3·4-something in the example which he gave, and I think, in looking at that statement of Mr. Mansur's, that must be regarded as one of the more favourable situations when default occurs, in that it is cured within a reasonable time and without very much difficulty. I think some defaults may involve something well beyond that, if my information is correct.

Q. Does that affect any statement which you have made with respect to foreclosure of mortgages? If there was more adequate insurance, would you feel happier about this new legislation?—A. If there was more adequate insurance, we would feel happier, but I doubt if it would change my mind at all about the unfavourable aspects of eviction.

Q. Under the present Act, I believe, the lending institutions put up 75 per cent and Central Mortgage and Housing Corporation 25 per cent on a joint basis. Would you favour continuation of that process as against this new process?—A. We are not an approved lender under that scheme, as you know, and, quite frankly, I have not had occasion to look at the 75-25 proposition, but I cannot imagine that it would fit a bank situation.

Q. Carrying forward one step further on Mr. Henderson's questions, you mentioned that lenders are of two types—maybe more, but two particularly—mortgage lenders and those who purchase bonds. Do you think that this type of mortgage will be able to compete with the normal low-ratio loans which the lenders can obtain in the open market?—A. I am afraid my opinion would not be worth much. I can only express another pious hope, that I hope so, because this is the merchandise that we will have to sell.

The CHAIRMAN: Mr. Adamson.

By Mr. Adamson:

Q. Mr. Atkinson, there is a question I asked yesterday of the Governor of the Bank of Canada, and I would like to ask it of you. I think you were here when I asked it of him. It is this. On page 3, you state that there is a misconceived idea that the banks have a very large pool of money lying around idle, putting it in my own words—I think that is your intent. Well, in the most recent statistical summary of the Bank of Canada, which I see you have, it says on page 7 that the total loans of the Bank of Canada to all the chartered banks come to \$4,052 million, whereas on page 1 it says that the

Canadian deposits in the chartered banks come to \$9,122 million. Now, there seems to be a discrepancy there between the loans and the deposits. Could you explain that?—A. Well, bank assets consist of many categories apart from loans. As I explained this morning, we must have a series of different types of uses for our money. From cash, which is the most liquid there could possibly be, up through treasury bills, short-term Government of Canada bonds, which could be melted very quickly, and so on, so that, had there been no discrepancy between loans and deposits in that statement, I am afraid that general managers generally would have much less hair than I have now.

Q. I see that, but those deposits represent cash or marketable securities?

—A. The difference between loans and deposits.

Q. Yes.—A. They are invested in various types of security, of varying marketability.

Q. There would be a difference between the nine billion and the four billion, which would be considered your liquid position, would it?—A. Yes, those are considered, generally speaking, what are called the liquid assets of the bank and which in most cases are in the neighbourhood of 60 per cent.

Q. That is, you have almost \$2 of assets for every dollar you loan?—A. About that.

Q. That is what I wanted to know.—A. Generally speaking, probably somewhat more.

Q. It shows here that it is somewhat more. You consider that this is the proper position of liquidity for the banking system of Canada?—A. As far as I am concerned, I try to keep on about that basis.

Q. You stated, and I believe you reiterated it, that you are much worried about insurance policies in this new method of mortgage financing, and that the banks do not know anything about it. Every banker I have talked to is in complete agreement with you on that, in that they are going into a field that is absolutely new to them. Do you agree?—A. Oh, yes.

Q. Can you envisage that there could be some central organization which all the banks could join for the purpose of approving and servicing mortgages?—A. I think it would be very difficult, in view of the fact that we are all represented in different places. In other words, it would be necessary for such a central organization, if one were formed, to use the branch banks, because in many cases there is only one branch bank in each town. It seems to me that it would be a very complicated situation. I cannot quite envisage how it would work or what benefit it would be, over and above our bank taking on its own servicing.

Q. The only benefit of having such a central mortgage limited corporation with a dominion charter would be that a loan would be approved by the experts in this corporation and not by your branch managers, or not by your organization which you would have to bring into creation, that is, the Royal Bank and each bank on its own.—A. It would require a very large staff of trained people, and I do not quite know at the moment where they would be obtainable. I think, at a guess, I would rather go it this way.

Q. All right, that is fine.

The CHAIRMAN: Mr. Michener.

By Mr. Michener:

Q. Mr. Atkinson, I think it has been pretty well stated and agreed that to the extent the banks lend money under this proposed arrangement, it establishes quite a new and radical change in the banking system of Canada?—A. That is right.

Q. The change as I see it—and I am asking for your comment and agreement—is that it puts the commercial banks into a field which has previously been occupied by the loan and savings companies?—A. And the insurance companies, too.

Q. And the insurance companies as well?—A. Yes.

Q. Those three groups which were represented here the other day by Mr. Bryden, were the insurance companies, the loan and trust companies, and the savings companies. Now, that is a pretty substantial banking system in itself and a lending system that has been operated by this group of institutions. I do not know if you have the figures there of the total amount of savings that are held by those institutions as compared with the savings held in the commercial banks.—A. I have not the figures before me.

Q. We were advised that the total assets of the companies represented were about \$4½ billion.—A. Yes.

Q. Those assets of course in the case of insurance companies are not termed savings. But in the case of loan and trust companies which have specialized in this kind of banking, have you any idea of how much of the savings of the Canadian people are in those institutions?—A. I have not got it in my mind.

Q. Or at hand?

The CHAIRMAN: Mr. Michener, I made an inquiry as to how much of the people's savings were in the chartered banks and how much was in the loan trust and insurance companies. The figure I obtained unofficially, but from a top official in the government, was that the chartered banks held at least 90 per cent, and the others 10 per cent or less. I do not know whether you agree with that or not.

The WITNESS: I have no idea. I have had no occasion to look it up.

By Mr. Michener:

Q. Well, as to the amount, that is something we can find out elsewhere. But this bill may lead to a conflict between the commercial banks and the institutions already occupying the mortgage lending field. So I ask you if it is not true that to the extent that commercial banks lend money on mortgages they are entering into a field which is effectively occupied by the loan and trust companies?—A. I suppose that is correct, ipso facto.

Q. Then following that, if the chartered banks are to go into that field would it not be logical to expect them perhaps to handle the business in a similar way?—A. Well, as I understand Bill 102, we are on exactly all fours with them, under this Act.

The CHAIRMAN: What do you mean by "similar way"?

By Mr. Michener:

Q. Have you in mind accepting deposits for a longer term?—A. I have not envisaged changing our method of operation.

Q. Have you given any thought to the possibility of establishing a new kind of deposit for the purpose of directing people's deposits expressly to be loaned out on mortgage loans, that is, longer term money.—A. I myself have not given any thought to it.

Q. Would such a change in practice get you over some of the difficulties of this legislation which you have pointed out?—A. I would be inclined to doubt it, Mr. Michener. The change would be, I suppose, from demand deposits to something of the nature of one year deposits.

Q. Yes.—A. As against a 25 year obligation. I do not see a great deal of difference between the two.

Q. Would there be any advantage, do you think, in having something that corresponds to the trust companies certificates, that is, a deposit for 4 or 5 years, or a fixed term, having a higher rate of interest than is paid on savings?—A. There might be something in it, but you are still very far short of the obligations you are putting on the other side of the balance sheet. I do not think that it would change things materially.

Q. In any event, that has not entered into your thinking?—A. History shows there is a very hard core to savings, even though they be demand. History shows that actually, with some very slight exceptions, savings have never gone down; they have tended to increase as time goes along.

Q. Perhaps the answer is that those people who have savings to deposit make the selection themselves of the banks, if they want deposits which are withdrawable upon demand, and of the loan companies, if they want their money to earn a better rate and they like longer deposits.—A. I think there is no doubt that the depositor makes that choice.

Q. So we have in our present banking system the depositor making his own selection as to where he wants to place his deposits?—A. That is right.

Q. But under this proposal we are not going to give the man any choice. If his funds are in a chartered bank we are saying to the chartered bank: you can act in the same way as the loan companies.—A. I trust that would not change the thinking of the present savings depositors.

Mr. ADAMSON: You would not think that your savings deposits would go down because of this legislation?

The WITNESS: I hope not.

By Mr. Michener:

Q. I think it raises this question: we have not the machinery today to perform what the chartered banks are being asked to do. Will people continue to put their money, to a limited extent, in that mill.—A. I think that is exactly the reason we will have to be very prudent administrators. And I would hope that it would not possibly result in the public of this country having one less iota of trust in our institutions, and that we can keep ourselves sufficiently liquid always to take care of their demands.

Q. Do you think that as banks get into this business under Bill 102 there is likely to develop any conflict of interest or clash as between the banks and other lending institutions?—A. I see no reason for such a clash.

The CHAIRMAN: There will be competition much as there is between the banks today. The same competition will overflow to the trust companies in this field, will it not?

The WITNESS: If it came to a situation where there was a greater supply of mortgage funds than demand, and if we as banks at that stage of the game decided that these loans were very attractive, with the result that we were competing so hard against the former lenders that they were finding it hard to place their money, then I could foresee that under such a situation they would have some reason to say that this competition was hurting them.

Mr. QUELCH: There is no sign of that degree of enthusiasm at the present moment, is there?

The WITNESS: I would find it a little difficult to envisage.

Mr. ADAMSON: You also believe in the millenium.

By Mr. Michener:

Q. We have been talking about increasing cash reserves in order to make more money available for mortgage loans. What is the machinery for doing that and how does it come about?—A. If the Bank of Canada decides that the

cash reserves of the banks are not sufficient to allow them to loan enough money, the Bank of Canada goes into the market. This is the first and normal orthodox move, although they may have other methods up their sleeves. They normally go into the market and buy a block of Government of Canada bonds.

If they buy those bonds, it means of necessity that they buy them either from a bank, in which case that bank gets a flood of new cash—or they buy them from insurance companies or from some other holder, in which case, whoever they buy them from deposits the cash in a chartered bank. Therefore the chartered bank has a new supply of cash which they must, of necessity, put to work.

Q. So what has taken place is this: that as the bonds have moved out of the bank, Bank of Canada cash has moved in.—A. That is right, and that money is then available as a basis for additional loans.

Q. What interest rate would you say is the current average rate of interest which is yielded to the banks on commercial loaning?—A. The minimum commercial loan rate is $4\frac{1}{2}$ per cent.

Q. And call loans are the same?—A. No. Call loans are at a lower rate depending on the type of collateral, because call loans are actually turnable into cash quickly where, let us say, those of a manufacturing company might take some little time to turn into cash.

Q. Would you compare the desirability of lending under this new bill with the lending which you now do? The difference would be roughly between $4\frac{1}{2}$ per cent in the case of your present lending business, and whatever the interest rate is fixed on this new loan, less the cost.—A. Not quite.

The CHAIRMAN: Four and one-half was a minimum, he said.

The WITNESS: Yes. We have made loans at 5 per cent and some even as high as 6 per cent which is the legal limit we may charge. But the difference also will be affected to a degree by what Central Mortgage have chosen to call the bite which reduces the insurance in the event of default which is mentioned in Mr. Mansur's statement.

By Mr. Michener:

Q. But the range of the effectiveness is not the difference between $4\frac{1}{2}$ per cent and the $5\frac{1}{2}$ or $5\frac{3}{4}$, therefore, it may be that on this kind of lending you have an expense item which is what you call the bite?—A. Yes.

Q. Plus the natural disinclination to get into unknown fields?—A. Yes.

Q. What I am looking for is a comparison of the desirability?—A. That is exactly why I said we would not have sought this method of loaning, because we do not find it from a strictly commercial point of view particularly attractive.

Q. One question relating to marketability. These mortgages might be sold to individuals and the servicing retained by the lending institution?—A. The Act provides that.

Q. The whole thing cannot pass into individual hands?—A. It can, subject to the servicing being retained by an approved lending institution.

Q. You hold the basic security?—A. And collect the monthly payments and see to the provisions of the bill and generally service it.

Q. Do you contemplate two documents which will be evidence of the security on the house, the mortgage held by the bank, and the other a certificate which will be sold in the open market?—A. No. I am not sure of the terms. But, if a mortgage is sold to a private individual he will not look to the owner of the home, but to the approved lender who sold him the mortgage and must service it.

Q. You cannot escape the undesirable feature of having to act as executor if the mortgage goes into default?—A. Unfortunately, no.

By Mr. Cameron (Nanaimo):

Q. Mr. Atkinson, I would like to revert again to the question of liquidity. As you are no doubt aware, sir, when the Hon. Mr. Winters was introducing the resolution which brought in this bill he mentioned the question of the liquidity of bank assets and suggested—you can correct me if I am wrong—that without certain provisions with regard to these mortgage securities the government felt that the liquid position of bank assets might be endangered; or rather he expressed the view that the government felt perhaps the banks would feel that their liquid assets would be endangered without certain provisions. Is that right, that the banks felt that the liquid position of the bank's assets might be affected unless there were special provisions?—A. I think you are speaking of the provision for using them as collateral into the Bank of Canada.

Q. That and another provision. I was coming to that. Do you agree that something had to be done to avoid having this type of business endanger the liquidity of a bank's assets?—A. I find that a rather difficult question in that I am more inclined to agree with what the Governor said yesterday that the reason for doing that was to keep a black mark off this type of security. I think, I said this morning that as a practical matter it really does not matter to the banks because we would not likely be in a situation where our borrowing from the Central Bank would require us to lodge this as collateral because our borrowings are modest and any bank would normally lodge Government of Canada bonds for that purpose.

Q. You agree that the provision whereby a bank may deposit these mortgages as a basis for loans at the Bank of Canada really has not practical application with respect to preserving the liquidity?—A. That is right.

Q. Then you went on to explain your very grave dislike for the role in which the banks are going to be cast, that is of a Scrooge. Would I be wrong in assuming that your policy would be to exercise such care in the granting of these loans that you would not under any circumstances be obliged to take advantage of the other provision the Hon. Mr. Winters suggested as a method of maintaining the liquidity of the bank?—A. What was the other provision?

Q. The fact that under this new bill as anticipated when a mortgage is in default a bank may after certain procedures call on the Central Mortgage and Housing Corporation to bail them out?—A. By the collection of the insurance?

Q. Yes.—A. It is a very natural position to dislike, as you put it, being a Scrooge.

Q. You would exercise every care not to have to take advantage of that provision?—A. I think we would attempt not to make a loan which we felt was likely to go into default?

Q. I presume that we may take it from that that your estimate of the value of this legislation with regard to preserving the liquidity of bank assets differs somewhat from that of the government?—A. That is a very difficult question to answer in those terms. I think I have answered it.

The CHAIRMAN: What the Hon. Mr. Winters said was they were available for use. What Mr. Atkinson is saying is that they do not have to use them because they have sufficient government bonds so that they may never have to use them. That is perfectly logical.

By Mr. Cameron:

Q. He has also told us he agrees that the liquid position of the bank assets could be endangered. Is that not correct?—A. I do not think that I said that.

Q. I gathered that impression. Unless of course there would be certain provisions or unless due care was exercised not to grant loans which necessitated taking advantage of the special provisions?—A. My expressed dislike of having to execute an eviction was not based in any degree on the danger of bank assets. It was based entirely on the danger to public relations.

The CHAIRMAN: And we welcome that statement.

By Mr. Cameron:

Q. Mr. Atkinson, I would presume in setting your policy with regard to the granting of these loans that you would have regard not merely to the apparent credit-worthy position of the individual nor even in regard to, shall we say, the Central Mortgage and Housing vetting of this credit worthiness, but you would also have as one of your considerations the present economic level of the period in which the loan is sought. That would be one of your determining factors?—A. That would certainly have to be taken into consideration.

Q. Could you tell us, Mr. Atkinson, what would be the result on your bank's policy with regard to these mortgage funds if the trend, which was published a few days ago by Dun and Bradstreet, appearing in the Financial Post of the 13th, with respect to business failures were to continue into the new year. I imagine you have seen it, but I will refresh your memory with the figures. The number of failures in 1953 as compared over 1952, was 23 per cent greater, but more significant still, the failures in the last quarter of 1953 were 65 per cent greater than the failures in the last quarter of 1952, and the liabilities involved increased as regards the entire year 1953, over the 1952, by 40 per cent, but as regards the last quarters of the respective years, they were increased by 125 per cent.

Now, if such conditions continued, if there was an accelerating rate of business failure, that would affect your general policy with regard to the granting of loans, would it not?—A. A turndown in business which is evidenced by failures, among other things, must of necessity affect any loaner's judgment on the question of loaning money, otherwise he would be, in my judgment, a pretty imprudent lender.

Q. Now I have one more question, Mr. Atkinson. I notice that apparently it is your hope, at any rate, that you will find a market for these mortgages. Now, how long would you consider would be a reasonable time for the bank to hold in its portfolio these mortgages before they were able to find a customer, and how would that affect your granting of further loans?—A. Well, if any bank felt that a certain limit was as far as they could go in total in their portfolio, and if at some stage of the game they were able to find a market for half of this, presumably they would be prepared to go further in lending. When you say how long would it be held in our portfolio, I haven't a doubt in the world that some of the advances we will make in the first instance under the Act will remain for a lifetime in our portfolio. This, of course, is unproven and may not develop at all.

Q. If it did not develop, or did not develop to any extent, that would not only seriously curtail the banks' operations, but would bring them to an end, as far as you are concerned, would it not?—A. I would rather put it another way, that if a market does develop whereby these mortgages are readily saleable in quantity, then inevitably more money will be available from the banks as a result of Bill 102. It could not be otherwise, I would think.

The CHAIRMAN: Mr. Johnston?

By Mr. Johnston (Bow River):

Q. I have one short one, Mr. Chairman. With regard to the saleability of the mortgages, once you got them in your possession, did I understand you to say that it would be your desire as far as possible to resell these insured loans on the market if you could?—A. That is right.

Q. Well now, when you resell these insured loans, is it not a fact that you must still continue to be responsible for the servicing of them?—A. Yes.

Q. The fact is that if you did sell insured loans, and have to keep the servicing up, you still must retain that feature of eviction if it becomes necessary?—A. As I understand it, yes.

Q. Then, even if you did sell mortgages on the market, under this Act it would be necessary to still retain that most objectionable feature, as far as you are concerned?—A. That is right.

Q. It would not help you in that regard?—A. It would help us only in the amount of money we have tied up in a longer term than we normally like.

Q. But you would still have the unpopular feature of the action of eviction, if it became necessary?—A. I am afraid so, as far as that part of the Act is concerned.

The CHAIRMAN: Mr. Philpott?

By Mr. Philpott:

Q. Mr. Atkinson, I have just two or three questions. Apart from the distastefulness of foreclosure proceedings by your bank or any other institution that has any money in mortgages, would you say the historical experience is that the equity is perfectly safe? In other words, taking for example the great depression of the thirties, in spite of the fact that the proceedings were distasteful to them, is it not true that any institutions which were forced to foreclose found the equity was there and was safe?—A. I have no experience with those times, in real estate particularly. I don't know. I would think that some losses were taken.

Q. But also historically, some great names were made by insurance companies and others, is that not right?—A. I have heard it said, but I cannot speak of my own knowledge.

Q. I have the impression that once or twice you hinted that was your objection to the measure. You do not want to be mixed up in any way with foreclosure proceedings and you seemed to hint, it seemed to me, that there might be some other technique which could be used, such as under the farm loans, am I correct in that? Have you got any ideas?—A. I think I went a little further than hinting. I think I said I hoped our insurance would take effect prior to eviction and that Mr. Mansur would undertake that distasteful task. If I didn't say it then, I say it now.

Q. In other words, that is your proposition, that you want Mr. Mansur to "take the rap"?—A. I would welcome it.

Q. Examining the experience of Canada over past generations, is it true that the banks and the financial institutions are dependent directly on the general prosperity of the country? The most important necessity to the prosperity of your institution is the progress of the whole country?—A. I would say that is definitely true.

Q. So that this new Bank Act is a contributing factor to the growth of Canada, involving as it does the expansion of housing in Canada and therefore banks are put into it, more or less, as surprised volunteers, under the new

scheme; and if it is a big success, then the banking institutions would gain a great deal of good will?—A. If it improves the general prosperity of the country, I would say we would be the gainers.

Q. And if there is extra prosperity and expansion in the country, that would mean extra deposits for your banks?—A. If the country is expanding and progressing, deposits almost inevitably expand and increase.

Q. So that if it proves a good thing for the country, it will be a good thing for the banks, even if they come in with slight unwillingness?—A. I would think it would be safe to say that anything which is good for the country is good for the banks.

The CHAIRMAN: Mr. Quelch?

By Mr. Quelch:

Q. On the question of foreclosure, if a bank had to foreclose on a mortgage, could they hold it for a number of years or would they be required to sell it to avoid a loss? Could they rent the property for a number of years?—A. If we foreclosed, and obtained vacant possession we would then demand on Central Mortgage, under our insurance policy, and be paid off. We have no interest in the house then, and it becomes a problem child of Central Mortgage.

Mr. TUCKER: I do not think you are forced to do that.

The WITNESS: Unless we are prepared to waive our insurance—if we are, I do not imagine Mr. Mansur would come and take the property, is that right Mr. Mansur?

Mr. MANSUR: That is right, but I am sure you would waive your insurance on the ones we wished you wouldn't.

By Mr. Quelch:

Q. One further point, Mr. Chairman. At the present time you sell to the public dominion bonds, do you not? You do not sell industrial securities?—A. No. Do you mean as underwriters?

Q. Yes.—A. That is right.

Q. Will you be selling these mortgages direct to the public or will you be selling them through an investment dealer?—A. I would assume that if any sales are made it would be the result of direct negotiations with a client. There is nothing to prohibit our selling any of our assets to anyone. There is nothing in the Bank Act to prohibit that as far as I know.

(Mr. McIlraith assumes the chair.)

By Mr. Adamson:

Q. Could you envisage one of your managers speaking to a client with a large savings account and saying, "I think it would be to your advantage to have one of these mortgages," just as you might say, "I would think it would be to your advantage to diversify your account?"—A. That is a possibility. I had not thought of asking our managers to "drum up" business. I rather thought it would work the other way. A client might say to a manager, "I have \$10,000 and I think it would be nice for me to buy some of these insured mortgages," in which case a deal could be arranged.

Mr. QUELCH: He would probably want it to be a good house?

The WITNESS: That, of course, like all deals, would be part of the negotiation.

By Mr. Adamson:

Q. My suggestion of a central organization would be to facilitate that sort of deal whereby the mortgage could be on the basis of insurance, so that the risk would be spread over a number of companies.—A. We will take your suggestion under advisement. There might be something in it.

Q. Because I would say that an insurer might want to spread the risk in a bill such as this.—A. It could be.

The Acting CHAIRMAN: If there are no more questions, I will thank Mr. Atkinson on your behalf for his evidence and for giving us such useful information here today. We are adjourned until Tuesday morning.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

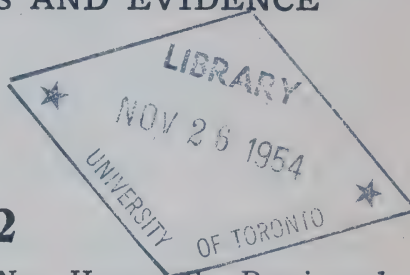
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10.



BILL 102

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

TUESDAY, FEBRUARY 23, 1954

WITNESSES:

- Dr. E. A. Forsey, Director of Research, and Mr. Donald MacDonald, Secretary Treasurer, of The Canadian Congress of Labour;
Mr. Percy R. Bengough, President, and Mr. Leslie E. Wismur, Director of Public Relations and Research, both of The Trades and Labour Congress of Canada;
Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation.

MINUTES OF PROCEEDINGS

TUESDAY, FEBRUARY 23, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Cannon, Cardin, Dumas, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hellyer, Henderson, Huffman, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, McIlraith, Michener, Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: The Honourable R. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation; Mr. A. R. Mosher, President, Mr. Donald MacDonald, Secretary Treasurer, and Dr. E. A. Forsey, Director of Research, all of The Canadian Congress of Labour; and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee resumed consideration of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Dr. Forsey called, presented a brief on the Bill under consideration and was examined thereon.

During the course of the examination of Dr. Forsey, Mr. Donald MacDonald was called and questioned.

At 1.05 o'clock p.m., the examination of the representatives of The Canadian Congress of Labour being concluded, they were retired, and the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Ashbourne, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cardin, Dufresne, Dumas, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hees, Henderson, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Michener, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: The Honourable R. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation; Mr. Percy R. Bengough, President, and Mr. Leslie E. Wismur, Director of Public Relations and Research, of The Trades and Labour Congress of Canada.

The Committee resumed consideration of Bill No. 102.

Mr. Wismur called, presented a brief on the Bill under consideration and was examined thereon.

During the course of the examination of Mr. Wismur, Mr. Bengough was called and questioned.

Mr. Mansur was recalled to answer questions specifically referred to him.

At 5.10 o'clock p.m., the examination of the representatives of The Trades and Labour Congress of Canada being concluded, they were retired, and the Committee adjourned to meet again at 3.30 o'clock p.m., Wednesday, February 24, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 23, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. The witness today will be Dr. E. A. Forsey, the director of research for the Canadian Congress of Labour. He will read a brief and the questioning will commence after he has finished.

Dr. E. A. Forsey, Director of Research, Canadian Congress of Labour, called:

The WITNESS: Mr. Chairman and members of the committee: the Canadian Congress of Labour wants to see Canadians get the housing they need, at prices they can afford.

1. How much do they need?

The total need is made up of the current annual need, plus the housing backlog. Everyone agrees there is a housing backlog, though there are wide differences about its size. But whatever it is, if we are not to add to it, we have got to build, each year, enough new dwellings for the new families who need it and to replace dwellings that fall down or are torn down or abandoned.

Net new family formation in 1953, according to Mr. Mansur's evidence at page 85 of this committee's proceedings, was 94,000, and he agreed that it would not be prudent to calculate on much less than 90,000, for the next few years. Dr. Firestone's figures for dwellings destroyed or demolished (residential real estate in Canada, page 271) suggest that the present figure for these must be around 9,000 or 10,000. Assuming that each new family needs a separate dwelling (which involves the question of voluntary doubling-up, a matter we shall discuss in a moment), this would mean a total annual current need of around 100,000 dwellings. Unless there is a large amount of voluntary doubling-up, it is plain that, even last year, when housing construction reached an all-time high, we were building just about enough housing to keep pace with current need, and making little or no impression on the backlog. We had to run harder than we had ever run before, just to stay in the same place, and not too good a place at that.

How big is the backlog? Mr. Mansur, after an elaborate discussion of various factors, offered an estimate of 75,000 to 200,000 units (page 72 of the committee's proceedings). The congress is convinced that this is far too low.

In the first place, Mr. Mansur puts the amount of doubling-up at 376,900 families and non-family households (page 68). But he thinks about two-thirds of this is voluntary (page 78). The congress is unable to share this optimistic view. How many young couples, or old people either, really want to live with their in-laws? If there are as many as Mr. Mansur seems to think, why does the census show such a small percentage of doubling-up among what it calls "wage-earner" (in this case, pretty obviously salary-earner) families whose head gets \$6,000 or over, and steadily higher percentages for successively lower income groups? Bulletin 3-12, table 134, shows that, for wage-earner families whose head was getting \$6,000 or over, the percentage of families not maintaining their own household was 1.43. For those getting \$4,000 to \$5,999, it was 3.10. For those getting \$3,000 to \$3,999, it was 6.17. For those

getting \$2,000 to \$2,999, it was 10·64. For those getting \$1,000 to \$1,999, it was 14·75. For those getting less than \$1,000, it was 19·46. For those living with relatives, the percentages go up in the same way, as the income of the head goes down: ·77, then 1·80, then 3·49, then 5·85, then 8·43, then 11·04; similarly, of course, for those living with people they are not related to: first ·66, then 1·30, then 2·68, then 4·79, then 6·32, then 8·42. It is perhaps flattering to the working-class to assume that family affection and ardent friendship increase so markedly as income decreases. We submit, however, that the flattery is not warranted. The congress knows of no reason whatever to suppose that poor people are any fonder of doubling-up than rich people. If more of them do it, it is because they have to. The 1·43 per cent of doubling-up among families whose heads are getting \$6,000 or more is probably mainly voluntary. It would be very surprising if the average of genuine voluntary doubling-up for all families were at all higher. The congress therefore submits that involuntary doubling-up alone constitutes a housing backlog of around 370,000 units.

It is, of course, true, as Mr. Mansur points out, that this makes no allowance for the quality of the housing or the size of the dwellings. But these factors would to some extent counterbalance each other, and it is hard to believe that the net result would markedly reduce the 370,000.

Mr. Mansur feels that the figures of number of persons per dwelling and number of persons per room "have little use as a yardstick in determining housing need" (page 71). With this, the congress is not disposed to quarrel.

Then there is the question of dwellings in need of major repairs, or lacking inside running water or exclusive use of inside toilet or exclusive use of bath or shower. How many of these really ought to be torn down and replaced? Mr. Mansur does not give a figure, but he believes "that for most of them repair and improvement, rather than replacement, is the practical and economical course of action" (page 72).

This also may be a great deal too optimistic. The Curtis Report noted that in the 27 major cities of the 1941 census, there were almost 256,000 dwellings "in need of external repairs and/or lacking or with shared use of flush toilets and bathing facilities." It estimated that about 100,000 of these needed replacement. In the 34 major cities of the 1951 census, 94,090 dwellings were in need of major repairs, 113,055 were without exclusive use of flush toilet, and 185,090 were without exclusive use of bath or shower. The figure corresponding to the Curtis Report's 256,000 would therefore seem to be at least in the neighbourhood of 200,000, and the number needing replacement would be about 80,000. The report added another 25,000 for these cities for dwellings whose "habitability is destroyed by location in slum areas which are beyond redemption." There seems to be no reason for supposing that the number of these would be any smaller now. In the smaller cities and towns, the report estimated that one-third of the dwellings in need of external repairs should be replaced; it made no addition for "blight and slum conditions." Applying the same proportion to the 1951 figures for smaller urban centres would give a figure of about 37,000. On the Curtis Report basis, therefore, replacement of urban sub-standard and slum housing would now add about 140,000 to the backlog.

This would give a total backlog of over 500,000, without any allowance whatever for replacement of sub-standard rural housing, which the Curtis Report put at 123,000. Even if this latter figure were cut in half—a generous assumption—this would leave the total backlog at about 550,000. Even cutting this total in half would leave a backlog of 275,000, which is considerably above the top of Mr. Mansur's range of 75,000 to 200,000. The congress finds it very hard to believe that the backlog can be much below 300,000, and would be surprised if it were below 500,000.

2. *What is the physical capacity of the house-building industry?*

The Minister of Public Works, last April, put it at about 135,000. Mr. Mansur, before this committee, put it at 125,000 to 130,000 (p. 87). Last year, we had about 105,000 starts. So the construction industry could, physically, build about 20,000 to 30,000 more dwellings. Working to capacity, therefore, it would take three years to wipe out Mr. Mansur's 75,000 backlog, and eight years to wipe out his 200,000. To wipe out a backlog of 500,000 would take about twenty years. Clearly, on any but the most favourable assumptions, capacity operation of the industry would take some time to overcome the accumulated deficit. Clearly also, therefore, there is need for a considerably increased housing effort, especially at a time when employment is slackening. (Dr. Firestone, in *Residential Real Estate in Canada*, page 257, estimated that in 1949 every unit completed gave on-site employment of 2,346 man-hours, and off-site employment of 3,063 man-hours, a total of about 5,400 man-hours, or, at that time, the equivalent of about 2.6 man-years. It is unlikely that the figure would now be very different. Roughly speaking, therefore, an extra 25,000 units a year could mean work for about 60,000 to 65,000 men.)

3. *What can people afford?*

This is the most complex question yet. The answer depends on: (1) the size of family incomes, (2) housing costs, notably the down payment, the interest, and the period of amortization, and (3) whether housing is subsidized or not.

The size of family incomes is not easy to get at. Income tax statistics are for individuals. So are monthly figures of average earnings of wage-earners and salary-earners. Census statistics are for heads of wage-earner and salary-earner families (or for individuals, of course). Even if we confine ourselves to wage-earner and salary-earner families, we are faced with the fact that there may be more than one earner in the family, and other sources of income besides wages or salaries.

Of the total 3,011,755 families (wage-earner, salary-earner, employer and own-account-worker) with one or more members in the labour force at the date of the census, 860,882, or 28.6 per cent, had more than one member in the labour force. (For urban families, the percentage was 29.4). In other words, between two-thirds and three-quarters of all families had only one member in the labour force. How nearly this proportion held true for wage-earner and salary-earner families, we do not know. But it seems likely that most wage-earner and salary-earner families had only one bread-winner.

Where there was more than one earner, we don't know how many there were nor how much they brought in.

Nor do we know how much supplementary income wage-earner and salary-earner families had from taking in lodgers, from savings, from family allowances, from old age security, and so forth. The probability is that such supplementary income was generally small, though the variations might be considerable.

Of wage-earner and salary-earner heads of families at the date of the census, excluding those whose earnings were "not stated", or "nil", about 32.5 per cent had got less than \$2,000 in the preceding year. Allowing for the increase in average weekly earnings since June, 1951, the equivalent figure now would be about \$2,400. In June, 1951, about 58 per cent altogether were getting less than \$2,500, which is roughly equivalent to about \$3,000 now. For urban heads of wage-earner and salary-earner families, about 26.2 per cent were getting less than \$2,000 at the date of the census, and about 53 per

cent less than \$2,500. Roughly speaking, therefore, it looks as if, now, about a quarter of the heads of urban wage-earner and salary-earner families were getting less than \$2,400, and about half less than \$3,000.

The congress thinks it safe to assume that well over half of all wage-earner and salary-earner families have very little income beyond what the head gets, and that a good third of such families are getting less than \$3,000.

At the beginning of November, 1953, average weekly earnings of wage earners proper in eight heavy industries with very little female labour and relatively high wages, were at the following annual rates: pulp and paper mills, \$3,752; heavy electrical apparatus, \$3,466; primary iron and steel, \$3,586; motor vehicles, \$3,460; non-ferrous smelting and refining, \$3,640; products of petroleum and coal, \$4,126; coal mining, \$3,150; metal mining, \$3,661.

I should perhaps add, if you take any one month it may not be completely representative, but we have made up these tables quite a number of times over a period of years, and the variations from month to month are not at all important.

What are housing costs? The cheapest N.H.A. house, a row house, appears now to cost, on the average, around \$9,029.

These figures were obtained from Central Mortgage and Housing's quarterly, "Housing in Canada". According to Mr. Mansur's table at p. 161 of this committee's proceedings, at the present rate of interest ($5\frac{1}{4}$ per cent), a \$10,000 house amortized over 25 years would require an annual income of \$3,597, an amortized over 30 years \$3,381. A \$9,000 house would therefore require an annual income of about \$3,050 to \$3,240. This, of course, takes no account of the down payment. Pretty clearly, even in the highest paid industries, there are a lot of wage-earners who cannot afford to buy even the cheapest N.H.A. house, even under this bill, and even assuming that the interest rate stays where it is now. If it goes up to $5\frac{1}{2}$ per cent, as appears to be likely, then the annual income required for the \$9,000 house goes up to \$3,100 to \$3,300.

It seems perfectly safe to say that at least a third, perhaps a half, of all wage-earner families, are not going to be able to buy even the cheapest housing under this bill, without cutting down on other necessities of life.

If parliament wants to bring home ownership within reach of lower-paid workers, it will have to provide for a much lower rate of interest. This would mean, in effect, a subsidy to home ownership. From Mr. Mansur's table, it will be noted that on a \$10,000 house, amortized over 25 years, the difference in annual income required at 2 per cent and at $5\frac{1}{2}$ per cent is \$855. For a 40-hour week, this works out at about 41 cents an hour. With amortization spread over 30 years, the difference is \$892, or almost 43 cents an hour.

Then there is the question of the down payment and the period of amortization and the mortgage insurance, and so of the total cost. For a \$10,000 house, under the present Act, this works out as follows:

Interest: $5\frac{1}{4}$ per cent, compounded semi-annually.

Amortization: 20 years.

Down payment: 20 per cent.

Monthly payment on \$8,000 mortgage: \$53.66.

Total monthly payments: $\$53.66 \times 12 \times 20$: \$12,878.40

Down payment: 2,000.00

Total: \$14,878.40

Under the new bill, with interest at the probable rate of $5\frac{1}{2}$ per cent, the cost works out as follows:

Interest: $5\frac{1}{2}$ per cent, compounded semi-annually.	
Amortization: 25 years.	
Down payment: 10 per cent on the first \$8,000:	\$800
30 per cent on the other \$2,000:	\$600
Monthly payment on \$8,772 mortgage (includes	
2 per cent insurance):	\$53.55
Total monthly payments: $\$53.55 \times 12 \times 25$	\$16,065.00
Down payment	1,400.00
Total	17,465.00

With a 30-year amortization period, the monthly payment is \$49.47, which brings the total cost to \$19,209.20.

In the first case, the new bill means that the buyer gets a reduction of \$600 in the down payment, and the princely sum of 11 cents a month in his monthly payments, and pays a total of \$2,586.60 more for his house. In the second case, he gets the same reduction in his down payment, and a reduction of \$4.19 a month in his monthly payments, but pays \$4,330.80 more for his house.

Obviously, this is not satisfactory. The poorer a home builder is the more he has to pay.

If the lending institutions are to be insured against almost all risk, then the interest rates should be substantially reduced. To give them a rate of $5\frac{1}{2}$ per cent or more (it could be as high as 6 per cent), and almost complete immunity against loss, is not traditional "free enterprise". It is fool proof and completely protected enterprise. A high interest rate is supposed to compensate the lender for risk. The lending institutions, under this bill, would get the high rate, without the risk. They would have their cake and eat it, too, minus only a very few small crumbs.

Why should not the government lend direct, through C.M.H.C., and insure itself?

The contrast between this bill and the proposals of President Eisenhower's special committee on housing—a 40-year period of amortization, and virtually no down payment—are very marked. If the main point is to get the down payment as low as possible, the American proposal is much better. It would, of course, push up the monthly payments and the total cost, unless the interest rate were substantially reduced.

All this has to do with home ownership. What about rental housing?

Broadly, there are two sets of provisions in the bill for what is described as "low-rental" housing. Each just carries on, unchanged, provisions of the present Act.

The first is section 16: the provision for loans to limited-dividend companies. This really provides for moderate-rental housing, and requires an annual income of \$3,000 to \$3,600. It is beyond the means of the low-paid worker.

The other is section 36, which provides, among other things, for subsidized low-rental housing, properly so called, with the dominion paying three-quarters of the cost, and the province, or the province and the municipality (if the province so decides) the rest. This section also provides for land assembly projects, on the same basis, which can be a considerable help to municipalities in meeting some of the costs they would otherwise incur as a result of housing developments. (Some of the municipalities' problems, of course, really involve a reorganization of local government, and redistribution of the proceeds of taxes, national, provincial and local; but this would take us too far afield.)

The subsidized low-rental housing provisions of the present Act have not been used as widely as they should have been. This is partly the fault of the municipalities, which have to set the whole thing in motion; partly the fault of citizens who ought to have prodded the municipalities into action; partly the fault of the dominion government, which has been content to hide this particular light under a bushel, instead of setting it on a national candlestick. The government ought to have trumpeted its achievements in putting this section on the statute book four years ago, and ought to have encouraged people all over the country to take advantage of it. Instead, it has been strangely reticent about one of the things it should have been proudest of.

Bringing the banks into the mortgage business is all right as far as it goes. How far that will be remains to be seen. But it is not going to have any revolutionary effect on the general housing situation, and it certainly is not going to bring much, if any, help to the people who need it most. It may help the prospective home-owner, especially if he is near the point where need becomes effective demand. But the congress is most interested in those whose need is nowhere near that point: the people who are too poor to be able to build, or buy, or rent, decent housing without cutting down on other things they need.

The congress is in favour of home ownership. But it thinks the cost can be and must be considerably reduced, if it is to be brought within the reach of the great mass of workers.

The congress is in favour of co-operative housing, and endorses fully and unreservedly the excellent brief submitted to this committee by the Co-operative Union of Canada and Le Conseil Canadien de la Co-opération.

The congress is in favour of moderate-rental housing, under section 16. More of all of these is needed.

But the congress is most strongly in favour of more public, subsidized low-rental housing under section 36. More of this is urgently needed. This, and co-operative housing, are the only methods which will provide decent housing for the people who need it most. On the whole, hitherto, our national housing policy has concentrated on helping people of moderate, or more than moderate, income. It is time for a shift in emphasis.

Respectfully submitted,

A. R. Mosher, President.

Donald MacDonald, Secretary-Treasurer.

E. A. Forsey, Director of Research.

And then, Mr. Chairman and gentlemen, after the brief proper was drawn up, the assistant director of my department, who happens also to be the secretary of our Committee on Human Rights, returned from a rather extended tour of duty elsewhere, and said we ought to have something on the subject of discrimination in connection with housing. So I asked him to draw up the addendum which is in your hands, and I took the liberty of sending it up a trifle late for your consideration, and I shall now read it:

Addendum to CCL Housing Memorandum

The government's bill seeks to make housing available to more people. Basically, it has tackled an economic problem. There is, however, a further problem involved. Certain groups of Canadians find it hard to get housing, solely because of their race, creed, colour or national origin. The congress knows of situations where Canadians seeking to buy homes constructed under the National Housing Act and under the auspices of Central Mortgage and Housing Corporation, have had their applications to purchase rejected merely

because they belonged to a certain minority group. This government has already enacted legislation to protect minorities against job discrimination, a worthy and commendable measure. It seems clear that protection must be extended to accessibility of housing, at any rate of housing built under national legislation. We submit, therefore, that a suitable section should be inserted in the Bill prohibiting restriction in the sale of government-sponsored housing for reasons of race, religion, colour, nationality or housing origin.

All of which is respectfully submitted.

The CHAIRMAN: Gentlemen, we will commence with Mr. Philpott, Mr. Noseworthy and then Mr. Macdonnell.

By Mr. Philpott:

Q. Mr. Forsey, personally I congratulate you on this very clear brief, but there seems to me to be one very important point that you make on page 8 in regard to section 36, the section referring to subsidized low rental housing which your organization very strongly approves. I note you say that not enough has been done to publicize the provisions. I notice you mention that this is partly the fault of the municipalities, partly the fault of the citizens and partly the fault of the dominion government. Would not your organization, of which I am a long time dues paying member, have been in an admirable position from coast to coast to publicize the provisions of section 36, to show why we are falling down on the job, and show that if the C.C.L. had put as much energy into this as they did into the drive to get national health insurance, possibly we would have had thousands and thousands more subsidized housing from coast to coast than we have already?—A. Well, Mr. Philpott, that particular remark about the fault being partly that of citizens and municipalities was partly a cry of—“*mea culpa, mea culpa, mea maxima culpa*”. We are perfectly ready to admit that not as much has been done by our own people as should have been done on the subject. From the main headquarters of our organization we prodded them on a variety of occasions, but as you probably know from experience with any organization you belong to, there is a great deal of difference between what is done at conventions, what is done at headquarters, and what you can actually achieve in the way of local action. We have prodded and prodded and prodded repeatedly. I have personally done it, and our organization has done it, and if the results are not all they should be, we are perfectly prepared to admit that.

The CHAIRMAN: Mr. Noseworthy?

Mr. NOSEWORTHY: Mr. Chairman, I want to follow with a few questions on section 32. Has the congress or its officials given any consideration to just what more the federal government could have done to produce more low rental houses under section 32?

The CHAIRMAN: You mean section 36?

Mr. NOSEWORTHY: Yes.

The CHAIRMAN: It was known as section 35 and is now 36.

The WITNESS: Well, Mr. Noseworthy, I don't think we could suggest a series of detailed things. The government has a pretty good publicity organization which has been used to great effect on various subjects and it just does not seem to have used it on this subject very much. You may have noticed in a report Mr. Davis submitted to the annual meeting of the Welfare Council—a rather ludicrous passage—in which there is reference to a statement of a certain labour organization to the government some three or four years ago after section 35 had been put in the Act—the present section 36, in which the organization said the government ought to have something in the Act about subsidized low rental housing. Apparently this particular organization did not

know about that section although it had been there, at that time, about a year. What is even more distressing, the Prime Minister instead of hitting them over the knuckles for not being acquainted with it, said that subsidized low rental housing was a difficult problem and you could not go too fast, you had to be very careful. Apparently he also was quite unaware of this section.

The CHAIRMAN: He was merely considerate of their feelings.

The WITNESS: He was too considerate. Of course we all know he is a great gentleman, but I think this was carrying it a bit too far.

By Mr. Noseworthy:

Q. From your experience, and the experience of congress officials, what would you say has been the cause of the reluctance on the part of the municipalities to enter into contracts with the province and the federal government to provide low rental housing under section 36?—A. I think, personally, that one reason is the problem we refer to in parenthesis here about the extra services they may have to provide in connection with some of these things. Even when section 36 is taken advantage of, it is partly a problem of municipal organization and municipal finance, and the taxation fields of the municipality and the province and the dominion which is of course a terrific problem.

Q. Do you feel that section 36 would be more effective if there was some provision made in that section whereby municipalities could receive from the federal government, through the provincial government, something by way of a subsidy for the building of schools and provision of the services?—A. I think it would help if they had the money. Exactly how to do it is rather a ticklish question because the minute you mention the word "school" you are setting the match to the heather in some places, and you have to be extremely careful about it; but if some money could be made available for purposes like that, some national money, it would be especially useful in the poorer provinces and the poorer municipalities. I do not think this question of the difficulties of municipalities is a complete answer to the question you asked. I think it is partly ignorance, partly inertia, and partly a reluctance of the better-to-do people in the municipalities possibly to make the sacrifices that may be necessary.

Q. You mention in this addendum that you have had instances where would-be purchasers have been refused the right to purchase houses built under National Housing. Do you want to be any more specific on that?—A. The Canadian Jewish Congress, I understand, has presented to the government sworn affidavits to that effect, specific cases in a sworn statement. I have not got that, but I think it can be easily procured by the committee if it wants to see it. Do you know about that, Mr. Chairman?

The CHAIRMAN: There was one instance presented to the minister, and he dealt with it.

By Mr. Noseworthy:

Q. Then on another line of questioning, you pointed out the difference both in carrying charges and the final payment on a house as between, say, two per cent interest and $5\frac{1}{2}$ per cent. Have your congress or its officials given any consideration to the possible effect upon the economy in general or the inflationary effect of subsidizing rental, shall we say, or building costs by reducing interest to two per cent or three per cent?—A. We are not afraid of it. I do not know that we have sat and cogitated over it for many hours. I should say, subject to correction by our president and secretary-treasurer, that we are not at all afraid of that for two reasons. First, we think that this whole business of low-cost housing is extraordinarily important, that it should have a very high priority in all national expenditure; and, secondly,

that at the moment the economy can scarcely be described as in serious danger of inflation—there is rather a danger of the opposite, if anything, though that again is a highly controversial question—but I think nearly anybody would admit that the curve of production, and certainly the curve of employment, is not shooting away up, nor are prices shooting away up. If we were in the midst of an inflationary situation, if we had severe shortages of manpower and materials, that would be one thing. But we are not in the midst of a situation that remotely approaches that now.

Q. Then, in your opinion, what course should we follow in order to bring houses within reach of possibly half of the wage earners of Canada? Do you want to sum that up in a few words?—A. I think we have suggested it here: considerable reduction of the interest rate and a further reduction in the down payment, and, of course, further energetic action under section 36. That is not by any means the whole story. I sometimes say that there is no one housing problem, there are a series of housing problems, and, therefore, there is no one solution. There are a series of solutions and we want to see them all pushed as far as they will go. We are in favour of a variety of different things. We are in favour of home ownership; we are in favour of co-operative housing; we are in favour of more of the limited dividend type of housing. We are not suggesting that there is only one answer to that: there is a variety of answers, all of which must be made with the utmost vigour of which we are capable.

Q. I notice you say there are only two provisions in the Act that could possibly bring houses within reach of the lower income groups; that is, the section dealing with co-operatives and section 36. You will agree, I suppose, that if money could be loaned at two per cent that would bring houses within reach of the lower income groups?—A. That would make a vast difference, obviously, as indeed we try to indicate by those figures at the bottom of page six, just before the table, the \$855 and the \$892.

Mr. NOSEWORTHY: Thank you, Mr. Chairman.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: I think it was in the first day's questioning of Mr. Mansur, the question arose of the cost of housing—

Mr. FOLLWELL: Could the rest of the committee hear what is going on?

The CHAIRMAN: They cannot hear you, Mr. Macdonnell.

By Mr. Macdonnell:

Q. In our questioning of Mr. Mansur, the question arose of the cost of houses and the building standards, and so on. I am referring particularly to what is contained at the top of page six of your brief when you speak about the cost for a \$10,000 house and so on. Briefly, as I recall it, what was before the committee was this: The question was raised as to whether the standards were too high. It was pointed out that in many cases they were the standards adopted by municipalities, but that seemed to be getting us around in a circle, because we understand that most of the municipal standards are taken from the National Building Code, which itself is a product of the National Research Council. I think that is a correct statement. Now, Mr. Tucker at that time raised a very practical question—when I say “practical”, a very interesting question—though applying to different circumstances. He pointed out that in his part of the world, in Saskatchewan, people were building and living in houses of a very different character, and he pointed out that there was no provision under the Act for loans to such people. Mr. Mansur also pointed out to us that in Newfoundland—I think that is the only illustration—they have substantially changed the standards. That is a rather long preliminary to asking the question. Have you considered whether the building standards

which are now in vogue and which have run into the costs that we know, whether they are necessary, whether any modification could be made, in your opinion; is the present house a minimum adequate house?—A. I could scarcely venture an opinion on that that would be worth anything, Mr. Macdonnell. All I can say is that I do happen to know pretty well Mr. Legget, the head of the National Research Council section on building research. I have a very high respect for his ability and also for his general broad social sympathy. I think he was to a considerable degree responsible for this National Building Code, and I should be very reluctant to pit my lay opinion against his and that of other experts. If they think it is necessary, I am not in a position to say it is not. We have not given any consideration to it.

Q. You are anxious to see the largest number of houses of the highest possible quality built for the greatest number of people. Now, respecting the expert to whom you have just referred—his qualifications, I am sure, are high—is it clear that he will have come to this problem with the same considerations that you and I have? Is it clear that the situation has been put up to him in that way: what is the cheapest house that can be built in the largest numbers for the largest number of people? I have no means of knowing, but it seems to me to be a very practical question to explore that carefully and to find out whether in fact those are the standards and objectives which he uses?—A. From what I know of him, Mr. Macdonnell, I would think that that consideration was very prominent in his mind. He did not draw the thing up on his own, but I would think that he had a good deal of influence in the process of drawing it up. But that is as much as I can say because I do not know. I simply do not know.

Q. Do you agree that this is a very vital and important question on which to reach a conclusion when we are considering the effect of this Act?—A. Oh certainly, but it is not a subject on which I can say anything at all useful, I am afraid.

Q. One other thing I would like to add is this: I listened with interest to what you said about low rental housing, Dr. Forsey. Already in this committee I have asked whether sufficient stress had been laid on that point and also—although I do not think that I carried Mr. Mansur with me—I sought to point out that all the inducements in this Act are to the home builder and not to those who rent homes. And as far as I can see, it does not offer additional inducements to those who provide rental housing. That point came up and, as far as I know, it did not get very far. Perhaps you can advance it a little further because of its general interest and comment on it. Certainly it seems to me that this Act in effect remains unchanged. This Act does not offer an owner a single inducement to promote an increased amount of rental housing. That is my understanding of it.—A. No. The provisions on the subject of rental housing, as far as I know, Mr. Macdonnell, are either completely or substantially unchanged. I may have overlooked some minor point, but I quite agree with what you have said.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (Peterborough):

Q. I only want to ask one question, Mr. Chairman. I have read over the new bill and I have come to the conclusion, I think, which most people have that it does not provide for the person who has a low income, and who wants to get a house under this new bill. Now, might I ask if the Canadian Congress of Labour, which has funds, has ever considered investing any of those funds in low rental houses?—A. I think I must ask the secretary-treasurer to answer that question, Mr. Fraser.

Q. The reason I asked it is that over the weekend I have had two or three of your own members ask me that same question.

Mr. Donald MacDonald (Secretary-Treasurer, Canadian Congress of Labour):

Mr. Chairman, I think in view of Mr. Fraser's question it should be given a serious answer.

Mr. FRASER (*Peterborough*): I was very serious when I asked the question, Mr. Chairman, and I thought we should have a serious answer. I thought it would help the congress and I also thought it would help your own people, Mr. MacDonald.

Mr. MACDONALD: Yes, Mr. Fraser, but your question is based upon an incorrect assumption, namely, that the congress has substantial funds which are available for any purpose. The fact is, however, that although we make our financial statements available publicly, I think that anyone who has studied them would see that the slender amount of reserves that we have available just would not be of any significance in the matter of housing. As a matter of fact I might mention the problem of trying to provide housing facilities for our own administration which is something we are not successful in doing as yet.

Mr. FRASER (*Peterborough*): Under this Act, having reference to section 36, it would not take too much of your funds to be able to finance projects in different municipalities, would it?

The CHAIRMAN: They do not come within that section, Mr. Fraser. That section is for use by municipalities and for the provinces.

Mr. MACDONALD: I might say in answer to Mr. Fraser that the proposition has been put to us before by various people. First of all we had to point out to them of course that we just did not have such funds available. However, some friends of ours have done an excellent job in propagandizing the idea that labour has tremendous resources. That is simply not the case. We have resources, but they are not financial resources.

The CHAIRMAN: That is right.

Mr. MACDONALD: I think a very important consideration is of course the fact, that is no doubt known to the committee, that our congress as such is not a legal entity.

Mr. FRASER (*Peterborough*): What is that again, please?

Mr. MACDONALD: I said that our congress, as such, in the ordinary sense of the term is not a legal entity.

The CHAIRMAN: Mr. Henderson.

By Mr. Henderson:

Q. On page 8, referring to the last paragraph, Dr. Forsey, you criticize both the municipalities and the federal government. I presume the same criticism applies as well to the provincial governments. Is that correct?—A. I beg your pardon?

Q. I refer to page 8, the last paragraph.—A. I heard that, Mr. Henderson, but I did not catch your question.

Q. You criticize the municipalities and the federal government for not publicizing subsidies on rental housing. You criticize the two extremes of government, namely, the municipalities and the federal government. I presume the same criticism would be applied by you to the provincial governments. Is that right?—A. I think in general, yes, although I am more familiar with the shortcomings of the other two than I am with those of the provincial governments.

Q. How low an income, Dr. Forsey, do you consider a man could have and still own his own house?—A. Well, I do not know that I could give a categorical answer to that question because it would vary according to circumstances,

according to the region in which he lived, according to local standards of living there, and it would vary according to the industry he was in, and the regularity of his employment. It would also vary according to the size of his family and so on. I would not want to specify a figure for the whole country. Moreover, a lot would depend on the kind of person he was. Some people would be pretty good risks, while other people would not.

The CHAIRMAN: That is important.

By Mr. Henderson:

Q. I take it you would agree that not everyone should own his own house?—A. Yes. In the case of an industry where fluctuations were considerable a man might not want to be tied down to a particular plant or locality. Take the case where an industry is suddenly shifted or closed down. The employee would then be left high and dry and left with a house on his hands. Let me cite the moving of the Film Board from Ottawa to Ville St. Laurent. In such a case a man might suddenly find that his investment is just gone.

Mr. McILRAITH: Not on the basis of the prices of housing at the moment.

By Mr. Henderson:

Q. Under normal circumstances, Dr. Forsey, how low would you say the income of a man could be and still have him own his own house?—A. I would not care to suggest a figure.

Q. What about the period of amortization which you say would be proper under normal circumstances?—A. I suppose the figure recommended by President Eisenhower's committee of 40 years would not be considered undesirable.

THE CHAIRMAN: That is the second reference to President Eisenhower's committee on housing. I think we ought to make it clear that that is a proposal which may or may not find legislative effect.

THE WITNESS: Oh, quite, Mr. Chairman. Like all proposals made by an administration in the United States, and still more when made by an advisory committee, it may go up the chimney.

By Mr. Henderson:

Q. What percentage of a person's income, what maximum percentage, in your opinion should he afford to pay for shelter costs? What is your consideration of that?—A. For rent?

Q. Yes, let us say for a shelter cost for his home?—A. The figure which housing experience has laid down is around one-fifth of his income, Mr. Henderson; but there will be variations in that, as I think Mr. Mansur indicated in his evidence the other day. But in the case of the ordinary low income family I think that is regarded as a representative figure and one which is usually used in discussions on the subject by people who know more about it than I do.

Q. You still would not like to say what the minimum income should be for a man to own his own house?—A. Not without more consideration than I have given it. It is a point on which I have been trying to make up my mind. I think if I did I would come up with different figures for different parts of the country, and different industries and different sized families.

By Mr. Hunter:

Q. I wonder if I could explain to you my thoughts and ask you questions at the end. Assuming all who really desire housing should have housing is our ideal, the low interest rates would drive the approved lenders out of

the mortgage field, this would mean an enormous load on the taxpayers and resultant higher taxation, and all taxation is eventually a charge on the gross national product. To live we must export and every time our prices go up our exports tend to decline and unemployment results. Our standard of living, while not what we would like, is nevertheless high compared to all the other countries except the U.S.A. An additional heavy tax load would have a tendency to price ourselves out of our export markets. Now, my question is: do you not agree that there is a very real danger? Is it not possible to proceed too rapidly and cause more harm than good? What questions really surveys mankind from China to Peru.—A. I cannot think of any economic question that has been left out in your summary, but I can answer by saying I challenge the preliminary assumption you start with that there would be an increased load on the taxpayers.

Q. That is something I would like to take exception to—your challenge of that.—A. Any appreciable increased load. To the extent that there is a subsidy, yes, it would appear that there would be an increased load on the taxpayers, but when you consider the economic costs to society of bad housing through juvenile delinquency and that sort of thing, I think the end result would turn out to be a lightening of the load.

Q. May I suggest that I think you will agree that this would drive the approved lenders out of the field?—A. They are certainly not going to lend at 2 per cent.

Q. So obviously everybody is going to use the Act who needs low cost housing and approved lenders would only be used for expensive housing?—A. Yes.

Q. Approved housing would have to be made under the National Housing Act?—A. The subsidy.

Q. The whole thing?—A. No. The government can borrow at $3\frac{3}{4}$ per cent and lend at 2 per cent, or borrow at $3\frac{3}{4}$ per cent and lend at $3\frac{3}{4}$ per cent or 4 per cent, whatever it thinks fit.

Q. There is about \$800 million a year loaned on this?

The CHAIRMAN: Approximately.

By Mr. Hunter:

Q. And whatever the going rate is 2 per cent or 1 per cent—the rate for government bonds is such that we are having trouble selling them possibly—you are going to have to procure that out of the taxpayers each year?—A. We have not actually said two per cent. Some lower rate of interest.

Q. It is going to be a large burden?—A. Depending on what percentage you choose.

Q. Supposing we are going to have increased housing it would be an increased burden on the taxpayer?—A. Some of it.

Q. Practically all of it. Where else can it come from?—A. The subsidy. It is the difference between the gross cost of this thing to the taxpayer and the cost incurred in bad housing in the form of ill health, which is a loss to production, and crime and juvenile delinquency of one kind or another. I have seen figures on this subject. The Baltimore people who were brought up here to discuss housing in Baltimore as an example for Ottawa, had a series of charts and figures showing the incidence of tuberculosis and other diseases and the incidence of crime and juvenile delinquency in bad and in good housing areas. Although I cannot quote the figures now, the differences were staggering. That is not an isolated illustration, but one that could be duplicated over and over again and I think we have got to realize there is a difference between gross and net cost to the taxpayer in this.

Q. You would not be in a position to give us figures on that?—A. I think it would be impossible to get figures to show how much we would save.

Q. There is one other factor which occurred to me and that is the assumption that we should all have housing. Let us assume that is our ideal. But that assumption is something which has never occurred in any country. The result has never occurred in any country where housing has been available to all who desired it?—A. I am afraid that my historical knowledge is not equal to that. Suppose it has not.

Q. Then are we proceeding too rapidly? I want housing for everybody, but will it be injurious to our economy to proceed too rapidly? Can you estimate how rapidly we can proceed?—A. All I can say is I am now old enough to remember a certain number of years of history in this country, and I have not noticed any field of social endeavour where legislation has gone ahead at breakneck speed; and I have gone back sometimes into the history of social progress and social legislation in this country and have found that almost every time anything is suggested, even when workmen's compensation was introduced in Ontario, there was the most terrific hullabaloo about how it was going to smash the whole economy to flinders, which on the whole it has not. I think we have survived remarkably well. If we did not keep pushing from our end, we would not go ahead as fast as we do, which is slowly enough. There are plenty of brakes on social progress in this country, there are lots and lots of them, and I see no reason why the Canadian Congress of Labour should add itself to the number.

Q. May I ask one further question, it is one which is often raised, the question of discrimination. If we started something like this, a subsidy, it obviously has to be started sometime and from that date forward the subsidy is available. Obviously it means all those who purchased hitherto have not had the delights of that subsidy. Have you any suggestion that we should go back and start subsidizing those who started earlier so that there will be no discrimination?—A. The only answer I can give on that is one that Sir Robert Borden addressed to the Duke of Connaught when he remonstrated about something the Cabinet had done: "It seems to me a case for the exercise of the commonplace quality of common sense".

Mr. McILRAITH: What is common sense in your view?

The WITNESS: If you want it in more elaborate terms: You cannot go back and unroll the scroll of history.

Mr. McILRAITH: I did not mean to ask you to put it in more elaborate terms. The mortgages are amortized now over twenty years and persons now holding those mortgages have to pay over the next 16 or 18 years as the case may be. Mr. Hunter asked you what you would do in those cases in the event that we started to subsidize low interest rates for the others?

The WITNESS: I do not think you can do anything about it. It is water under the bridge.

The CHAIRMAN: He said you cannot unscramble the omelet.

The WITNESS: I thought it was obvious.

By Mr. Hunter:

Q. The point I am making is this: I think there would be tremendous dissatisfaction with those who have 17 years to run. I think it is like buying a car one week and having them take the car the next week. There will be tremendous and continuing dissatisfaction because they will pay the high interest rate for years.—A. You are not going to get a painless solution for this problem. It is going to cost money. We have to make up our minds whether we really want it or whether we unreally want it; whether we really want it and are willing to pay the price for it or whether we really don't want it and just want to talk about it.

The CHAIRMAN: Mr. Stewart?

By Mr. Stewart:

Q. Mr. Chairman, would Dr. Forsey agree that this legislation is designed for those who can afford to buy houses, and by that I mean those who are in receipt of an income of \$3,600 a year and above?—A. Would I which?

Q. Would you agree that this legislation is designed to help those who can afford now to buy houses?—A. Well, I think I would go a little beyond that. I think it is designed to make it perhaps a trifle easier in certain ways for some who can't; for instance the down payment.

Q. And this sort of housing is a matter of simple economics?—A. Yes.

Q. But dealing with low cost housing, would you say that is a matter of economics or a social matter?—A. I would say it is a social matter. If you do it on an economic basis you are licked before you start.

Q. Let us take it on the assumption that Central Mortgage might lend money at 2 per cent to those in certain wage brackets. That money, of course, would come from the federal government. The federal government borrows it at $3\frac{1}{2}$ per cent so that on a hundred million dollars borrowing, the subsidy would be about a million and a half dollars, arithmetically it would be the difference between \$2 million and \$3 $\frac{1}{2}$ million. The witness nodded, it doesn't mean anything.

The CHAIRMAN: Your calculations seem to be right.

The WITNESS: Far be it from me to challenge a Scotsman's arithmetic.

The CHAIRMAN: And an accountant!

The WITNESS: Yes.

By Mr. Stewart:

Q. In my judgment, if this housing problem for the low wage earner were to be tackled it would involve an expenditure of \$300 million a year which in turn would be a subsidy of \$4 $\frac{1}{2}$ million a year, if my calculation of \$1 $\frac{1}{2}$ million is right, would you agree?—A. Your calculations seem to be all right so far.

Q. And would you agree that this \$4 $\frac{1}{2}$ million subsidy would not be a crushing burden on the government of the day?—A. I wouldn't think so. I think you are taking up some of the figures which Mr. Hunter produced. I think he fixed a higher total which may account for the difference between the two.

Q. I think that is the amount of money that would have to be spent. Have you given any consideration to what is done in other countries, such as giving a second mortgage on the down payment without any rate of interest?—A. I have not, no.

Q. That, I believe is the situation which exists in part in Sweden?—A. Yes, I have seen some reference to that in the evidence before the Committee, but I am not familiar with the Swedish legislation.

Q. I want to get off into the field of economics. Suppose instead of the government borrowing money the government were to create money and advance it to Central Mortgage, what would be the economic effect on the country, and if it seems to be inflationary, have you any idea how the inflation could be overcome?—A. Well, I do not want to get into the field of monetary controversy. I suppose if the committee insists I will have to answer, but I would very greatly prefer not to get into that "vast Serbonian bog where armies whole have sunk". I do not think it is necessary to get into it myself, and I would much rather not, unless the committee orders me to do so. I would much rather not get involved in it.

Q. I will allow you not to answer that. But you say in your brief: "Why should not the government loan direct to C.M.H.C. and insure itself?" I think the government can do it but I will not press that further?—A. I was not suggesting there the creation of money.

Q. You were suggesting the borrowing from the taxpayers?—A. Yes.

Q. There was a situation in Winnipeg last year for which all credit must be given to Central Mortgage and Housing. There was a referendum to the taxpayers wherein they were asked to vote for low cost home construction. About 800 houses were involved. I will tell you, if you do not already know, the part the Canadian Congress of Labour played there. It was very significant, but one of the factors was that only taxpayers could vote on the by-law, and therefore it would appear no matter how much the Canadian Congress of Labour could do, unless they could persuade the taxpayers to vote the right way, they were not going to succeed. That was one of the reasons for the failure.

Have you followed the evidence which has been given up to last week? Would you agree that the insurance companies take the position that they are not going to expand much further into loans?—A. That is certainly my impression. I should be very surprised to find that it is wrong.

Q. And, as a result of Mr. Atkinson's evidence, would it appear to you that the banks are quite cold to this legislation?—A. That again was my impression.

The CHAIRMAN: Isn't the word "cautious"?

The WITNESS: I have not seen the transcript of the evidence, I merely glanced at the newspaper report and I am always a bit cautious about those.

By Mr. Stewart:

Q. In view of the fact that the mortgage companies are not prepared to lend very much more, if more at all, and the banks are more than cautious in their approach, and the government has decided to cut out the joint loan 25 per cent, would that add up in your mind to the belief that there will be more houses produced as a result of this legislation?—A. No, it would not.

Mr. STEWART: I think that is all, Mr. Chairman, thank you.

The CHAIRMAN: Mr. Hellyer?

By Mr. Hellyer:

Q. Just one question, first of all, concerning this 2 per cent money. Assuming that the mechanics you had in mind was to borrow from the public at the going rate, say $3\frac{1}{2}$ per cent, and re-loan it in the form of mortgages at 2 per cent, is that the mechanics you had in mind first of all?—A. Yes.

Q. Say that \$800 million a year was required to carry even the present load, which would automatically fall on the Act over a period of 10 years, \$8 billion, a subsidy of $1\frac{3}{4}$ per cent in the interest rate itself would amount to \$120 million a year, is that correct? I mean, by the end of that time, not compounding it?—A. \$120 million a year?

Q. Yes. That would be \$8 billion at that time?—A. That is your total? Do you mean \$120 million a year?

Q. That is \$800 million a year. The subsidy carries on, you cannot write it off at the end of the year?—A. Oh yes, accumulated. I thought you meant the annual charge.

Q. That would be the annual charge at that time.

The CHAIRMAN: Make sure the witness understands the question. Would you make it clear please?

By Mr. Hellyer:

Q. I have not added up the back amounts, but the added amount at that current time, plus what followed your own investment would in fact amount to a great deal more than that. In relation to that, the evidence has been given that it costs approximately 1 per cent to service mortgage loans, so that would

have to be added on to that charge, and that would be another \$80 million a year, would it not?—A. Presumably the service charges would be paid by the borrower. That is not part of the subsidy.

Mr. McILRAITH: It is in the interest.

The WITNESS: If you are talking about what we would be charging the borrower under this, you would have to add your service charge to the borrower.

Mr. HELLYER: Then, you are talking about 3 per cent money, instead of 2 per cent money?

The WITNESS: Yes.

Mr. HELLYER: Then, that is a different thing altogether.

The WITNESS: You still have your subsidy.

By Mr. Hellyer:

Q. Then you have a subsidy of $1\frac{3}{4}$ per cent instead of $2\frac{3}{4}$ per cent?—A. That is what it amounts to? I didn't state a figure, remember, I gave that as an illustration.

Q. But some of your people here have suggested that figure also. That is the reason I took that figure. If you did have to charge 3 per cent instead of 2 per cent, you would have a subsidy of \$200 million at that time, approximately. That is all right, Mr. Chairman, as long as we have an approximate idea, and I am not saying it would not be worth it.—A. If I may get this clear it may help me in answering your question. Why is there a discrepancy between the \$300 million that Mr. Stewart spoke about, and the \$800 million you are talking about.

Q. There is a difference because his figure is unrealistic.

Mr. STEWART: I was thinking of 35,000 houses.

The CHAIRMAN: Yes, the number of government built houses.

By Mr. Hellyer:

I thought you would admit that the number of units financed in this manner would increase tremendously even in proportion to the present output, that is why I took a more realistic figure.

The second point I wish to pursue follows Mr. Fraser's point. I wonder if the union has any type of pensions or annuities or anything of that order which you could tie up and have available for investment over all periods?—

A. In the first place, our organization is not a union. It is a conglomeration, a federation, an association of unions. In the second place, most of our unions are comparatively new and have not built up funds of that sort. Some of the old craft unions that have been going for a long time have such funds, but most of our unions have not.

Q. Would some of your unions have pension funds?—A. Very few would have pension funds of their own. In quite a number of cases we have a collective agreement providing for pensions, to which the employee contributes and the employer contributes, that kind of thing, but that is not under the control of the union at all.

Q. That is not what I was thinking about. I was thinking of your own organization, for your own personnel.—A. I think there are very few of our unions which have. I think there are not more than one or two.

Mr. MACDONNELL: There is only one, which is a relatively small one.

The CHAIRMAN: You would have more money if we gave you the check-off?

The WITNESS: The answer is that there is really nothing there as far as we are concerned.

By Mr. Hellyer:

Q. You appreciate that, even with very limited funds under section 16, the limited dividend section, with approximately \$1,000 to invest, a person or corporation or a limited dividend company can build approximately one unit?—A. Oh, quite, but you have a look at our financial statement when it comes out and see how much is there.

Q. I was just passing that out for your reaction to see if anything could be done in that regard. Is the Ontario Federation of Labour affiliated with your organization?—A. It is chartered by us. It is one of our organizations.

Q. Is it affiliated?

Mr. MACDONALD: There is a distinction in the status. It is a subordinate organization chartered by our congress.

By Mr. Hellyer:

Q. Thank you. I would like to read a quotation from a newspaper, and again with the reservations that Mr. Forsey made with reference to this type of thing. This is from the "Toronto Daily Star" of February 6, 1954:

The federation's resolution blames the high cost of housing on high profits made by building companies ('as much as \$4,000 on a home of modest size'), high finance charges due to 'exorbitant' interest rates, and land speculators who have forced up prices to an 'unjustifiable' level.

You have in your brief dealt with interest rates and we have discussed it at some length here. You have also touched on section 36, and say that more attention could be drawn to that section whereby provincial governments and municipalities in co-operation with the federal government could assemble greater amounts of serviced land and make them available without these speculators' profits which were referred to in this report. The third thing mentioned here is the high profit made on modest houses, as much as \$4,000 on a home of modest size. Do you have any comments that you would care to make on that figure?—A. No.

Q. Mr. Mansur said in his evidence that Central Mortgage and Housing Corporation allowed a profit of five per cent in their fixed selling end price. Five per cent of \$12,000 is considerably different from \$4,000. Have you anything to say on that?—A. I have no comment on that. I presume the people who made that statement, assuming that it has been correctly reported, had some evidence on which they based it. I have no comment to make because I do not know what their evidence was, and I do not know if it was correctly reported.

Q. In your own experience, have you any evidence which would indicate such a thing?—A. No, personally, I would not hazard any figure at all on that subject.

Q. The point I am trying to make is that their figure, if it is accurately reported, is fantastic, and I just wondered if you have any comment.—A. I have no comment. I do not know what they are proceeding on, or whether they are correctly reported.

Q. I presume it might be accurate, because it is in a direct quote.—A. That does not necessarily follow.

The CHAIRMAN: Mr. Balcom.

By Mr. Balcom:

Q. On page nine, you state that bringing the banks into the mortgage business is not going to have any revolutionary effect on the general housing situation. You say, "It may help the prospective home owner, especially if he is near the point where need becomes effective demand." I wondered if Mr. Forsey would explain what is meant by "effective demand"?—A. I think I meant by "effective demand" just what Mr. Mansur meant by "effective

demand" when he was talking to you. The difference in my opinion between "need" and "effective demand" is that I may need something but if I have not the money to pay for it I do not appear in the picture at all. I have no effective demand. I would love to have a Cadillac motor car, provided I could find anywhere to park it. It might even be suggested that I need it, but I have no effective demand for it because I cannot pay for it. What we are thinking of here is the result, for example, of the lower down payment. A person might not be able to pay \$2,000, but if somebody says, "You have only to pay \$1,400 down", he says, "Splendid, now I come into the picture."

Q. In the addendum that deals with alleged discrimination, it states on the third last line that a suitable section should be inserted in the bill prohibiting restriction in the sale of government-sponsored housing for reasons of race, religion, colour, nationality or national origin. I wonder if the C.C.L. has any particular part of the country specifically in mind needing such protection or such added protection to what we already have?—A. I am afraid I cannot be specific about that, because the information that I had from my colleague was simply that there had been cases on which the Canadian Jewish Congress had presented affidavits to the government, and I do not even know where those cases were. I can find out very easily if it is required.

The CHAIRMAN: This question was asked on the orders of the day—of the Minister of Public Works. There is a reply on Hansard.

By Mr. Applewhaite:

Q. I would like to follow up briefly three headings under this Act. First, talking about home ownership, regarding the cost to the purchaser; there are two factors involved, the interest factor and the physical cost of the house. In so far as the physical cost of housing is concerned, has the C.C.L. any information on the comparative cost of the same house now as compared with, say, 15 years ago?—A. I think I have seen information on that, but I have never gone into it very much, for two reasons. One is that this is a field in which none of our unions are engaged and other people's are, and I don't want to tread on anybody's toes too much. Most of the construction industry unions are in the Trades and Labor Congress of Canada and they, therefore, are in a much better position—I think they will be here this afternoon—to discuss with you that particular aspect of the physical cost of housing.

The other thing is this: some years ago I had occasion to go into the whole question of trying to get down the physical cost of housing, acting on the instructions of Mr. MacDonald's predecessor, Mr. Conroy. And after some discussion of the problem with people in the government service who knew the most about it, I emerged almost completely baffled because nearly everything that could be suggested to bring down the cost of housing came up against a variety of obstacles, and you discovered that the only result was that, under this head, you could only work extremely slowly. I have always found it to be a particularly baffling and fruitless search. I talked it over with Mr. Legget and with Dr. Firestone and some other people, and it really did not seem to be very productive of results. I do not mean any reflection on either of those gentlemen, quite the reverse. But it does seem to be a very intractable problem.

Q. Are we to assume that the C.C.L. is not of the opinion that the physical cost of housing is out of line or higher than it should be at the present time?—

A. I should not go so far as to say that, but I would go so far as to say that anything that could be done to bring down the physical cost of housing is something which will not produce results very quickly.

Q. Has the C.C.L. any suggestions as to what could be done to bring down the physical cost?—A. I have not, certainly.

Q. At the bottom of page 5 of your brief you make reference to a \$9,029 house. Does that cost include the land as well?—A. My recollection is yes, that it does.

Q. What amount of that \$9,029 would be represented by the land?—A. I am afraid that I cannot say what amount it was. I made use of the breakdown in one of the tables in "Housing in Canada", the quarterly.

Q. Has the C.C.L. investigated the cost of land which is being made available for these houses?—A. No, I have not at all events.

Q. That is what makes it difficult to follow you any further.—A. I have assumed that when you get this land available under the National Housing Act presumably you have got land as reasonably as you can expect, and that there is not too much water in there to squeeze out.

Q. I would like to get the views of the congress on amortization. Is it fair to assume from your reference to this 40 year period that the C.C.L. would, under certain circumstances, approve an amortization period of, let us say, from 30 to 40 years?—A. If it were part of a satisfactory package, yes. If you combine it with a high interest rate, that is one thing; but if you combine it with a low interest rate, that is another thing.

Q. I was referring to it as a period of years, assuming that the interest rate was satisfactory. Have you found any mention by your members of a fear of long-term contracts like that?—A. I do not see too much of the people out in the field. I must appeal to the secretary-treasurer because he sees them all the time.

Mr. MACDONALD: No, we have never come across any such fear.

Mr. APPLEWHAITE: You have not? What do you figure would be the average age of a purchaser under this Act?

The WITNESS: The average age of a purchaser?

Q. Yes.—A. I have not the faintest idea.

Q. Is age not of importance in connection with the amortization period?

Mr. MACDONALD: No.

The CHAIRMAN: Please speak up.

Mr. APPLEWHAITE: When talking to people back home I have heard them say that an extension of the period of amortization over 30 years is all nonsense. They will say: we will all be dead by that time, and we do not want to die and leave an uncompleted contract for somebody else to carry out. However, in the case of people starting in at 22 or 25, that argument does not follow. But some of them do feel that they are being, you might say, tied down to a house because they have an equity in it for which they have to pay. Might I ask if the same reaction has been found by you, in your inspection of housing before you drafted your brief?

Mr. MACDONALD: No. The only thing I can say is that I may have heard it discussed in perhaps one particular section of the country. I do not think it applies to the whole. But there were sections of our people who were interested in certain provincial legislation which existed in that section and where we made very forceful and as a matter of fact successful representations to have the amortization period under that provincial legislation extended.

By Mr. Applewhaite:

Q. I wonder if it is fair to ask Dr. Forsey to express an opinion on what would be the views of the CCL as to what percentage of the 40 year amortization period would be completed?—A. Would be completed?

Q. Yes.—A. I would not want to hazard a guess on that either.

Q. Unless you could say 90 per cent, it would not be complete, would it?

Mr. MACDONALD: Would that not be based on the life expectation on the individual unit rather than on the individual owner?

Mr. APPLEWHAITE: The thing that worries me is the fears that were expressed of a long-term period.

Mr. MACDONALD: The fear might derive from the increased amount of interest which they would have to pay over an extended period of time.

Mr. APPLEWHAITE: No. It was not the financial load which worried them. It was the length of time. We know that you are going to have a financial load which is greater with an extension of 10 years to the amortization period. But these people could not see through to the end. And I wanted to know if, in your experience, you had run into that same fear.

The WITNESS: I have so very little to go on that really it is not worth anything. That is why I referred the question to Mr. MacDonald because he gets about the country and sees the rank and file of our people in a way that I do not.

By Mr. Applewhaite:

Q. Is it the view of your congress that a long amortization period under certain circumstances is of value?—A. Yes.

Q. Now, in connection with your observations about "discrimination", do you think if something along that line were done it should apply to rental housing as well as to the sale of government sponsored housing?—A. Decidedly, it should provide for both.

Q. In the fourth line of your addendum you refer to "discrimination because of race, creed, colour or national origin". And on the last line you have added "nationality or national origin". You would admit that under certain forms of government sponsored houses, let us say, in connection with defence projects it might be necessary to restrict them to those who were citizens of the country?—A. You mean for security reasons or something of that nature?

Q. Yes.—A. If it is for security reasons, certainly. But a native born citizen may be a bad security risk, as bad a security risk as the fellow who only arrived yesterday, or perhaps worse.

Q. That is right. But there might be cases where the principle would be quite legitimate.

Mr. MCILRAITH: Mr. Chairman, I do not think that the point is quite clear. The change is made in the last sentence. Under the recommendation as it stands it would require that the government subsidize housing for foreign embassies, and that is a thing which I am quite sure Dr. Forsey did not intend.

The WITNESS: Oh no, no!

Mr. MCILRAITH: I think we are all aware of the point.

Mr. APPLEWHAITE: In the fourth line it is worded a little differently.

The CHAIRMAN: Dr. Forsey explained that the additional brief was rather hastily drawn.

The WITNESS: Yes, and not by a lawyer. This proves again how wise it is always to consult the profession on such matters.

The CHAIRMAN: What words of wisdom.

Gentlemen, I have seven on the list. Please be short.

By Mr. Adamson:

Q. Dr. Forsey, your brief is based on the main premise that low cost housing and low rental housing needs in Canada can only be met by a subsidy?—A. Really low rental needs, yes.

Q. That is all?—A. Yes.

Q. Do you know of any country where low rental housing has been made by any other means than by subsidy?—A. No, I do not think so, but I do not profess to encyclopedic knowledge on the subject.

Q. I wondered if you were familiar with the Jane Addams houses in Chicago and what they are doing in New York in the insurance companies. However, I will not digress. There is one other question I have. On page 8 you say "this is partly the fault of the municipalities which have to set the whole thing in motion and partly the fault of citizens." Now, Dr. Forsey, would you agree with me that one of the main problems today is raising municipal taxation on real estate to pay for the present cost of municipal government?—A. Well, yes. That is implicit in the parenthesis there, just above the part you quoted. Obviously this thing does involve problems of municipal taxation. There is no question about that.

Q. Would you say, therefore, that the municipalities are that part of government that are least able to undertake this form of subsidy?—A. They are not called upon to undertake it; under this particular section they are helped very considerably.

Q. But all forms of housing are headaches and a drain on the municipality. They are a deep drain on the municipality?—A. Did you say deep drain?

Q. Yes, particularly low rental housing.—A. To some extent low rental housing is, and projects under this thing might be. I think the usual thing is that the municipality provides approximately the same services it would provide for a private builder undertaking a development; it accepts about $\frac{5}{8}$ of normal taxes in lieu of full taxes it would get out of a private development. There is a small element of municipal subsidy in there, yes.

Q. My point was that the municipalities are having the greatest difficulty at the present time to make ends meet and that under your suggestion they will be even farther squeezed?—A. Well, some of them are doing it, Mr. Adamson, and have done it with great success. I cannot think of any places that are much harder put to it than St. John's, Newfoundland and Saint John, New Brunswick, who have undertaken this thing, and if those rather impecunious cities—and I am not speaking in a snooty upper Canadian fashion—if they can undertake it, why cannot larger and more prosperous places? There are difficulties, but if we are going to talk about difficulties we will never get anything done. We could speak of difficulties until we were as old as Methuselah.

Q. Are not the municipalities at the present time that form of government that is having the greatest difficulty in raising revenues?—A. I think that is correct in general.

By Mr. Robichaud:

Q. Dr. Forsey, you have mentioned the situation of doubled up tenants. Is it not a fact that low income wage earners double up basically to counter-balance the effect on their limited or low income and want to cut down the cost of upkeep on their rented or privately owned homes?—A. Yes. They double up because they have to, not because they want to. I was contraverting Mr. Mansur's view that people do it because they want to.

Q. To follow this up, has any attempt been made by your congress to determine what percentage of these doubled up tenants might be interested in purchasing homes and willing to pay for them or willing to pay full rent of their own?—A. No. The answer to that is further, however, that they cannot do it, obviously, on an economic basis; precisely that. We are convinced that they want homes of their own but cannot do it on an economic basis now.

Q. Has any survey been made as to what percentage of them want it?—A. I understand that Mr. Mansur said that they have made surveys on this question of doubling up and have not been able to get any real results. My

department, which enjoys the grandiose title of Department of Research, has to spread itself appallingly thin. We have not made any investigations and we cannot.

Q. You mentioned Saint John, New Brunswick, and I understand there was a low rental project in Saint John and that at the present time a percentage of these homes are not even rented while there is a majority of doubled up families living in Saint John and vicinity which would seem to show us that a percentage are not even willing to get facilities?—A. You are referring, I think, to Mr. Mansur's evidence on that point. I have no answer to it. If you look again at Mr. Mansur's evidence he does not suggest that that is a general condition, rather that in general where these subsidized low rental projects have been undertaken they have worked out well. I hope I have not misrepresented what he said.

Q. I agree with you on that point. But, here is another question: we should all agree that there is a difference between wanting a new home and being willing to pay for it. You mentioned quite a backlog here on a point on which you do not agree with Mr. Mansur, but has any attempt been made to ascertain what percentage of the backlog mentioned on page three of your report might be interested in securing a new home? Has any attempt been made to find out?—A. Not by us. We simply have not got the resources in personnel or money to do it.

Mr. ROBICHAUD: Thank you.

By Mr. Quelch:

Q. Dr. Forsey, I wish to carry forward a little bit further the suggestion referred to by Mr. Hunter regarding money at 2 per cent. He stated that if that were done it would drive the insurance companies and loan companies out of the field, and then there was argument by other members that if money was made available at 2 per cent it would be made available in the whole housing field. On the one hand, we have recognized the low income group in so far as rentals are concerned; therefore, do you see any objection to making such a provision for people in low income groups at 2 per cent, whereas people in higher income groups would continue to pay the conventional rate. In that way you will not be affecting the insurance companies and loan companies because they would not be providing money for people in the low income groups at rates which would be convenient for the high income groups. Would you have any objection to the two categories?—A. No. It is the lower income groups I am concerned with. I do not see why there should be any such subsidy given to people who can afford to look after themselves. I can afford to look after myself. I know of no reason under the sun why I should be subsidized, but there are a lot of people who are not even within shouting distance of the income I get, which is by no means princely.

Q. In other words, the argument of Mr. Hunter of driving the mortgage companies out of the field would not hold water because it wouldn't affect them anyway?

The other point I would like to ask is this—the question was asked but you did not answer: have you in mind anything by which the cost of housing would be lowered, either by reduction of the price of materials or the actual construction? I have in mind prefabricated housing? Have you given any consideration to that? Doubtless if we did more in that line, we could continue employment in the winter months to a greater degree because we could carry on construction of prefabricated materials in the winter, and in the summer months the houses could be constructed more quickly?—A. I went into that question some years ago with Mr. Legget at the Research Council where I spent an entire day, and that is one thing we discussed most fully. I must

confess I came out with the impression with the results achieved then were very small, that it was not one of the main lines of solution to the problem. It may be able to add something, and I am in favour of whatever can be done in that line which will bring about a partial solution, but it is not philosopher's stone or a talisman or a magic spell which will solve the problem.

The CHAIRMAN: Mr. Cameron?

By Mr. Cameron:

Q. Dr. Forsey, on page 5 of your brief you have a list of wages paid in certain industries, and I notice you have chosen, as you say, those industries where wages are relatively high. The reason I am asking this question is that I am surprised at the conclusion you have reached in the paragraph before concerning the annual incomes of various family groups. Do you think that these annual incomes you present here in your column really do represent the actual incomes in these industries, or is it merely an arithmetical computation from the weekly wage?—A. I would say, Mr. Cameron, in these particular industries in recent years, it is not too far out. I do not think there has been such an extraordinary fluctuation in the monthly figures there that the figures would be too far out. I would not care to be held to the last digit there, but I think that is a fair representation of what people were getting on the whole in those industries in the last year.

Q. The reason I am questioning this, is that I was wondering if that had been a factor in arriving at the conclusion you reach in the paragraph before, that a third of such families are getting less than \$3,000 per year. I am not sure whether you are referring to one-third of all wage and salary earners, or whether you are referring to a third of the half?—A. No, a third of all.

Q. Well, that puzzles me, because there have been estimates that present a very much larger proportion of our family groups getting incomes—

The CHAIRMAN: There have been statements on the floor of the House quoting the national revenue figures, but from the other side of the House, there have been objections to those figures as not being realistic.

Mr. McILRAITH: Dr. Forsey has allowed for this.

The WITNESS: Wait a minute! To be produced as a "trump card" for the Liberal Party would be for me an experience as novel as it would be disagreeable. I think, Mr. Cameron, to be quite serious about it, that what I was trying to do here was to be on the safe side all the way through. I think it is possible to make an argument for a larger proportion than that, but I am sometimes accused of being given to exaggeration, and I wanted to be on the safe side, particularly with a number of people of Scottish extraction on the committee. Therefore, I did not go as far as I might have gone in those statements, but I think it is possible to make out a case for a higher figure.

The difficulty is, when you take the income statistics, or the wage statistics which come out month by month, you have no information on the family income. One reason why we included this series of figures for these particular industries is that here, where you have a relatively high wage level and manual heavy work that is done by grown-up men, with very few women, and not too many young persons, to use the legal term, you probably have something a little nearer family income than if you were just to take a general slash at the wage statistics generally, a general average.

Mr. CAMERON: I had in mind figures from the National Revenue, but the survey made last year—I presume you are probably familiar with it—by the D.B.S. with regard to the expenditures of various family groups on medical and hospital services. In the process of that they produced some figures of the number of families. As I recall it, it indicated that over two-thirds of the Canadian family groups were getting \$3,000 or less.

Mr. McILRAITH: That is the figure I quarrelled with.

The WITNESS: I think it could be higher, but I wanted to be on the safe side. However, I think this is quite serious enough.

The CHAIRMAN: We agree with you.

By Mr. Cameron:

Q. Has the Canadian Congress of Labour made any study of co-operative housing? I know you said you endorsed heartily the briefs presented. Doctor Forsey, in your opinion, do you think that half of our housing problems might be solved, or at least relieved to some extent, if as generous financial provisions were offered the co-operative housing units as are offered to the low-rental housing schemes under the Act?—A. Yes, I think so, but I would rather refer you to Mr. Macdonald, who is an expert on co-operative housing, having actually taken part in it as well as knowing a good deal about it theoretically.

Q. I was very interested in the evidence given by Father Marrocco before the committee.—A. So was I.

Q. It appeared to be the burden of his opinion, that while they had done very well, they would be able to do better with the help of loans.

Mr. McILRAITH: The evidence has been paraphrased. There is quite a sharp distinction between Mr. Staples' evidence and Father Marrocco's evidence on that point. It is in the record. I think we should leave it in the record. It was not Father Marrocco who made that point.

The CHAIRMAN: Mr. Follwell.

Mr. FOLLWELL: There has been a great deal of discussion about providing homes for low income families. I would like to ask Doctor Forsey to define that. What do you consider a low income family?

The CHAIRMAN: He says, not a member of parliament.

By Mr. Follwell:

Q. I am sure that a member of parliament would consider that \$5,000 a year was a low income.—A. Again, as you say yourself, it is relative. To take a standard such as you get by applying the Toronto Welfare Council's famous minimum health and decency budget, the present cost of that for a family of four is around \$2,700—\$2,678 is, I think, the figure calculated for me yesterday by my staff—I should say certainly that a family that was getting only that amount would be a low income family. I think possibly you could take it a little above that.

Q. You would suggest that anything less than \$2,700 would be considered low income, and they should have the opportunity of securing a home under legislation such as this to be provided to them at the lowest possible cost?—A. Yes, I would be prepared to put the limit at, say, below \$3,000, but I would not want to be too precise about it.

Q. One other thing. As Mr. Cameron has said, the C.C.L. have pointed out that they are very much in favour of co-operative housing. When Father Marrocco presented his brief, if I recall correctly, he said that over a thousand man hours went into the co-operative house that was built by the owner-occupant. Mr. MacDonald is an expert on this, you say, and I am sure, as a representative of labour, he will be able to tell the committee if you are in favour of co-operative housing—and I am sure you have said you are—if it could go too far and could react to the economic unfavourability of the worker himself and in turn add to the unemployment situation about which we are all concerned.

Mr. MACDONALD: It is a question that has been raised on many occasions in principle, as a matter of fact, and our view has always been that the work that is done by the owner-tenant, as it were, is work that otherwise could

not have been performed, because invariably they have been in income brackets where they otherwise could not have got homes from other sources. There may have been occasional variations in that, but in general that is the situation.

Mr. FOLLWELL: The point I make is that a gas-station operator is going to do the labourer's work, and the labourer is not going to have money to buy the gasoline from him. The thing sort of snowballs and gets to the point where it is used too extensively.

Mr. MACDONALD: I think that works both ways. Do not overlook the contribution which the individual owner-tenant is making in erecting the house. He is creating employment for others as well. Otherwise it would not be done, if you follow me.

The CHAIRMAN: Now, Mr. Macnaughton.

By Mr. Macnaughton:

Q. Mr. Chairman, my questions are intended to draw out information for myself and I hope for the committee. On page 8 you refer to subsidies and you say:

The subsidized low-rental housing provisions of the present Act have not been used as widely as they should have been. This is partly the fault of the municipalities, which have to set the whole thing in motion; partly the fault of citizens who ought to have prodded the municipalities into action; partly the fault of the Dominion government, . . . and so on.

Has your organization done anything to bring it down some? Has your organization, the C.C.L., done anything in the local Montreal area to remedy that situation by way of bringing pressure on the municipalities and by propagandizing these low cost rentals?—A. In Montreal?

Q. In Montreal.—A. I do not recall anything at all about that.

Mr. MACDONALD: All our subordinate organizations in Montreal from time to time have brought this matter to public attention.

Mr. MACNAUGHTON: And that is as far as you want to go. You have not really urged the thing?

Mr. MACDONALD: If you are thinking in terms of our conducting such a program at Montreal alone, then no, we have not.

The WITNESS: We are not so strong and powerful in Montreal as some other organizations.

Mr. MACNAUGHTON: I am not asking you about the other ones. What have you done?

The WITNESS: We have already said that we probably have not done all that might have been done. I was not trying to say that we were lily-white and that everybody else was black.

Mr. MACDONALD: In order to get a proper perspective when answering the question I should remind you that we are a national organization. We do not deal in terms of a local situation alone. If we were to do anything in Montreal, we would of necessity, in discharging our responsibility to our people throughout this nation, have to do the same thing throughout the length and breadth of Canada.

The WITNESS: I should add that our organizations in Montreal have had to spend a good deal of their time fighting for their life, and that hasn't left them too much time for talking about housing. The life is more than meat, and the body than raiment, or even shelter and our people have had to fight for their lives.

Q. My next question is a general one. The last paragraph seems to sum up your whole brief when you say:

But the congress is most strongly in favour of more public subsidized low-rental housing under section 36 . . . and so on.

Have you any general theoretical approach to the whole idea of government subsidy? It is very easy to subsidize anything, provided you want it to be paid for in taxes. How far would you go in the way of the general subsidizing of houses or anything else. What is your theoretical approach to this?

The WITNESS: My theoretical approach is: here is a problem. What is the best way of solving it? It is the old British empirical approach to a problem: What is the best way of solving it? How important is it? What is it going to cost? What are the alternative methods? What would they cost?

I do not approach it with any doctrinaire, presuppositions one way or another. I think the history of this country reveals that the Canadian people have not approached the problem of subsidies with any doctrinaire presuppositions.

By Mr. Macnaughton:

Q. I presume you have studied it along with other questions?—A. To a modest extent.

Q. And you know the history of government subsidized housing?—A. It is a very good one.

Q. That is why I asked you. I see it is getting late but I would like to explore this question further.

The CHAIRMAN: This is your last chance as far as Dr. Forsey is concerned.

By Mr. Macnaughton:

Q. Have you examined those countries where they have socialized housing, or have you read about the facts?—A. Only to a very modest degree. I am not a housing expert, Mr. Macnaughton. I have to turn my hand to a whole stack of things. I am a sort of general handy-man for this organization.

Q. I appreciate that, Dr. Forsey, but I would like you to outline the factual knowledge on which you based your last paragraph.—A. Everything I have read on the subject suggested to me that, by and large, subsidized housing, in the Baltic countries, in Great Britain, as well as elsewhere, and including the United States, has been highly successful.

The CHAIRMAN: That is the opinion of the chairman too. Now, Mr. Tucker.

Mr. TUCKER: I would like to follow up Mr. Macnaughton's questioning.

The CHAIRMAN: Go ahead.

By Mr. Tucker:

Q. Would you put your case for a hopeful outcome of the situation on something being done under section 36?—A. Yes.

Q. Have you any idea of a situation developing where people will say: We are paying for our own homes and we do not want to start paying for other people's? What solution do you offer to that problem?—A. The only solution I can suggest is a general campaign of public education. These people are going to pay, and if they want to pay by juvenile delinquency and crime and ill health, that is their business. It is the situation you have with the municipal franchise being so restricted. That is a subject on which we have had plenty to say.

Q. I think in western case on this plebiscite other than home owners had the right to vote and the province assumed 50 per cent and ten per cent to the city, but my recollection is that they voted it down for the same reasons. I take it that you would not go as far as to say that the province should take this on if municipalities refuse?—A. No. I think that the thing has got to be done with the approval of the people of the local municipality. I do not think we can do it otherwise. That may be a slow process, educating these people, but I think it has to be done by people like us and by some other people whom we have suggested.

By the Chairman:

Q. Am I correct in assuming that you are quite satisfied with section 36 of the present Act, which is the subsidizing section?—A. Yes, I think so.

Q. I felt sure you did.—A. I want to see it used more. If somebody said “make the dominion share 80 per cent instead of 75”, I would not object.

Q. Can I carry you one step further. Are you prepared to say or to agree with me that we have brought that section and its benefits continually and constantly to the attention of the provinces.

Mr. MACDONNELL: Attention of whom?

The CHAIRMAN: The provinces.

Mr. MACDONNELL: How would he know that?

The CHAIRMAN: I think it is general knowledge. Wouldn't you know?

Mr. MACDONNELL: No.

The CHAIRMAN: From your extensive knowledge do you know whether it has been brought to the attention of the provinces?

The WITNESS: Clearly it has been brought to their attention to some extent because most of them have legislation on the subject and there are some projects at some stage or other in a good many of the provinces. The point we are making is that it has not been brought enough to the attention of the public generally. They have been left largely in the dark about the thing. There has not been the extra zip to make the people aware of it. I have noticed that in my work in the Ottawa Welfare Council. There are people right here on the government's own door step who do not know about it.

The CHAIRMAN: Gentlemen, Dr. Forsey, Mr. MacDonald and Mr. Mosher, we are very thankful for your coming before the committee and presenting this excellent brief.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I see a quorum. The witnesses this afternoon appearing before the committee are Mr. L. E. Wismer, the director of public relations and research of the Trades and Labor Congress, and the president, Mr. Percy Bengough. Mr. Wismer will read a brief.

Mr. L. E. Wismer, the Director of Public Relations in Research of the Trades and Labor Congress, called:

The WITNESS: Mr. Chairman and members: the Trades and Labor Congress of Canada is pleased to have this opportunity to place its views on Bill 102 before your committee. This bill which seeks to amend the National Housing Act and “to promote the construction of new houses, the repair and moderniza-

tion of existing houses, and the improvement of housing and living conditions" is, perhaps, the most important piece of legislation which will come before parliament this session. Certainly it deals, at least in part, with one of the most pressing problems confronting Canadians today, that is, housing and the shortage of housing.

That there is a substantial demand for new housing in Canada seems not to be doubted by anyone today, although some wide discrepancies are noticeable in some of the estimates that have been made. New family formation and the continuing obsolescence of existing housing will in themselves serve to create and maintain an annual demand for new housing of considerable proportions. Add to this the backlog created in earlier years when new housing construction was severely curtailed for whatever reason and the total apparent demand is obviously of sizable proportions.

Your committee has had the benefit of expert advice and evidence as to the total apparent demand for housing and of the annual demand which may reasonably be expected now and in the years ahead. It is thus not necessary to reiterate these figures here or to offer particular advice as the accuracy of any particular forecast or summation which you have had before you. Suffice it to say that we believe that this is a very serious problem, that it is capable of solution, and that parliament and your committee hold the key to that solution.

For many years The Trades and Labor Congress of Canada has been urging the government of Canada to take steps which would be adequate to deal with the housing situation. Over the last twenty years some things have been done by parliament and the government in this connection, but at no time have the measures taken been anywhere near adequate.

Last December when The Trades and Labor Congress of Canada placed its annual memorandum before the government of Canada, it was stressed that we would "favor action which will increase the amount of money available for new home building". We placed our stress upon the making of money available because we believed and still believe that it is only parliament that can deal with this important problem. In this connection we said further to the government at that time that "two obstacles in particular stand in the way of our affiliated membership and their families obtaining new homes . . . these obstacles are (1) excessive down payments and (2) exorbitant carrying charges on the unpaid balance". This, of course, is true no matter how much mortgage money is available. Thus, since we are particularly concerned with how much mortgage money will be available to our own members for new home building, it is of the greatest importance to us whether the legislation before your committee is likely to remove these two obstacles.

We have, of course, looked at Bill 102 in this light. We have asked ourselves the question: how many of our affiliated members will be able to build new homes if parliament approves of the legislation?

We are not greatly concerned whether the mortgage funds come from a bank or a trust company or an insurance company. What we are concerned about is who will be qualified to make use of such funds and whether our members can meet the qualifications.

In the light of present regulations and current earnings levels, it would appear that a large section of our affiliated membership would not be able to participate in the benefits expected to accrue from the new propositions, if the interest rate cannot be brought below current levels. For example, a worker earning at the rate of \$1.25 an hour and continuously employed on a 40-hour week basis will have a gross income of \$2,600 annually. Such an income appears to be slightly higher than the national average, which means that it is neither high nor low, and that many thousands of workers earn considerably less. Under the existing regulations (the allowable monthly payment to be not more than 23 per cent of the gross monthly income), the worker even though

continuously employed at \$1.25 an hour for forty hours a week could not qualify for more than an \$8,500 house at 6 per cent, a \$9,000 house at 5½ per cent, and could not reach the \$10,000 house class until the interest rate was brought down to about 4½ per cent. This, of course, takes into account the new down payment provisions of Bill 102.

These figures are cited to indicate just how limited the field of application is of the new provisions proposed in this bill. For the majority of Canadians, and for many thousands of our affiliated members the amendments your committee is considering in this bill have no possible direct application, and, perhaps, only the very minimum indirect application.

This fact becomes all the more apparent when it is remembered that many thousands of higher paid workers cannot expect, under present conditions, to be continuously employed throughout fifty-two weeks of the year and thus their gross annual earnings fall far short of what may be indicated if only their hourly rate of pay is considered.

All of which suggests that either the 23 per cent rule should be discarded altogether, or made much more flexible, or that provision should be made for lowering the interest rates. Perhaps, both should be done.

Each year for a considerable period we have asked the government of Canada to provide low cost housing and low rental housing, and to subsidize such housing where necessary. Each time we have made this request we have been told that the government was not prepared to subsidize housing since this would create a privileged group. We would point out to your committee that that is exactly what this legislation will do. By placing the financial resources of the government, at least in part, behind the new mortgages envisioned in Part I of Bill 102, the effect is to subsidize those of above average earnings. Surely, if this is sound legislation and the correct approach to the problem, then it would be equally sound and very desirable to extend such help and subsidies to those Canadians who have below average incomes. These workers and their families have just as much need of adequate housing as those in the higher income brackets.

This bill does provide for a slight reduction in the down payment and for some extension of the repayment period of the mortgage. In effect, the reduction is from 20 per cent to 14 per cent on a \$10,000 loan. This, of course, would result in higher monthly payments unless the interest rate is lowered or the period of repayment is extended. The bill does provide for a repayment period of from twenty-five to thirty years and this will result in slightly lower monthly payments. This, however, falls far short of the recommendation of The Trades and Labor Congress of Canada to the government of Canada last December which was to adjust the down payment "to a maximum of ten per cent, and the repayment period of the balance . . . sufficiently to allow the monthly payments to be a reasonable percentage of the purchaser's monthly income."

We might point out to the committee that recommendations have been made elsewhere, especially in the United States, for the elimination of the down payment altogether, for those purchasers in the lower income group, and the extension of the repayment period to at least forty years.

The bill, on the other hand, seems to go all the way towards making mortgage lending attractive to the banks and other lending institutions. The new loans are to be insured, their amount to be set by Central Mortgage and Housing Corporation, compliance inspections of the actual construction also to be done by CMHC; the new loans are to be transferable, purchasable by CMHC, and eligible security for advances from the Bank of Canada. But despite all of this elimination of work, expense and risk for the lender, there is no indication either in the legislation or from those responsible for it that

the current interest rate can be reduced accordingly. In our opinion this is just not reasonable, nor is it in line with usual financial concepts and practices.

Your committee, however, has had the benefit of the advice of the governor of the Bank of Canada and, among other things, apparently he has suggested that some reduction in interest rates is possible under present conditions and trends. Having this in mind and, at the same time, remembering that it is of the greatest importance that the benefits of this legislation, and any further steps which could be taken, be made available and accessible to the greatest number of Canadian families, we wish to make certain recommendations.

We recommend:

1. That the provisions of Bill 102, especially Part I, be made more flexible to—

- (a) Allow for further reduction in the down payment when and as interest rates will permit an accompanying drop in monthly payments, and
- (b) Allow for greater discretion in setting qualifications for loans under the Act and its regulations.

2. That Central Mortgage and Housing Corporation not withdraw from mortgage lendings, and provide for—

- (a) New housing loans to the lower income group of prospective purchasers on the basis of
 - (i) No down payment or only a token down payment,
 - (ii) Minimum interest rates,
 - (iii) Repayment over a period of forty years or longer;

and (b) New housing on long term leasehold in which

- (i) The Central Mortgage and Housing Corporation or any agency of it owns the land and sets the conditions upon which the dwelling can be leased for an extended period and be transferred during the term of the lease,
- (ii) The Central Mortgage and Housing Corporation or an agency of it can provide for necessary services,
- (iii) The Central Mortgage and Housing Corporation or an agency of it can provide for adequate maintenance of the dwelling, and
- (iv) The Central Mortgage and Housing Corporation or an agency of it can take necessary steps to protect the value of the property.

We are making these recommendations to your committee because we feel that such adjustments and extensions in Bill 102 would not only increase its effectiveness, but also bring new housing within the reach of Canadian families in the lower and intermediate income groups as well as those in the higher levels. We believe that the powers conferred in this legislation should have this broad application, and we, therefore earnestly hope that our recommendations will have the fullest consideration and approval of your committee.

Respectfully submitted,
On behalf of
THE TRADES AND LABOR
CONGRESS OF CANADA.

The CHAIRMAN: Gentlemen, when Mr. Bengough and Mr. Wismer came here a few minutes ago, they were drafting a resolution to deal with discrimination, I indicated to them there was such a resolution placed in the record this morning. It had been presented by the Canadian Congress of Labour.

After showing it to them, I would now ask Mr. Wismer or Mr. Bengough to tell the committee what they think of the resolution and do they endorse it on behalf of the Trades and Labour Congress of Canada.

The WITNESS: It may be that the other congress received the same request as we did by telegram pointing out that there have been cases in Canada where people were not allowed to purchase houses built under government sponsored schemes because of their race, religion, colour or national origin. We do not approve of this sort of thing, and we would go along with this last sentence, Mr. Chairman, which states: "We submit, therefore, that a suitable section should be inserted in the bill prohibiting restriction in the sale or rental of government sponsored housing for reasons of race, religion, colour or national origin."

The CHAIRMAN: In effect, you endorse the resolution?

The WITNESS: Yes.

The CHAIRMAN: In toto?

The WITNESS: Yes.

The CHAIRMAN: Is that correct?

The WITNESS: Yes.

The CHAIRMAN: We will put it on the record as part of the brief. I have made a change providing for rental housing which is the result of our discussion this morning.

The WITNESS: "The government's bill seeks to make housing available to more people. Basically, it has tackled an economic problem. There is, however, a further problem involved. Certain groups of Canadians find it hard to get other housing, solely because of their race, creed, colour or national origin. The congress knows of situations where Canadians seeking to buy homes constructed under the National Housing Act and under the auspices of Central Mortgage and Housing Corporation, have had their applications to purchase rejected merely because they belong to a certain minority group. This government has already enacted legislation to protect minorities against job discrimination, a worthy and commendable measure. It seems clear that protection must be extended to accessibility of housing, at any rate of housing built under national legislation. We submit, therefore, that a suitable section should be inserted in the bill prohibiting restriction in the sale or rental of government-sponsored housing for reasons of race, religion, colour, or national origin.

The CHAIRMAN: I will try to give some of the members who have not had a previous opportunity to ask questions a high priority. Mr. Hanna, you have not done much questioning, we will let you start.

Mr. HANNA: At the bottom of page 3, Mr. Chairman, the following statement appears, "Each year for a considerable period we have asked the government of Canada to provide low cost housing and low rental housing, and to subsidize such housing where necessary."

The CHAIRMAN: Mr. Hanna, the reporter has to take this down, you cannot be heard, and furthermore you are speaking too fast.

By Mr. Hanna:

Q. I am sorry. At the bottom of page 3, the following statement is made: "Each year for a considerable period we have asked the government of Canada to provide low cost housing and low rental housing, and to subsidize such housing where necessary." The question I wanted to ask the speaker was: is he familiar with the terms of clause 36 of Bill 102?—A. Yes.

Q. The next question is: do the provisions of clause 36 not answer the requirements here?—A. No.

Q. Is it fair to ask in what way they do not?—A. Well, you are providing some rental housing under that section, but you are not providing anything like the volume necessary, nor are you getting the rents down where we could consider them low rents.

Q. Well, I understood on this subject, from a statement made by the minister in the House, I think it was, that there was an average subsidy of some \$17 to \$18 per month. Is that not a considerable subsidy, if that is the average?—A. It depends on what you start with as the rent. If you subsidize \$125 per month rent with \$17, I still could not touch it. If you subsidize \$50 a month rent with \$20, \$30, may be somewhere near what I can do, that is what I am trying to say to you.

Q. I am not able to say what the average rent is. Perhaps Mr. Mansur could tell us. I would like to know if we are subsidizing \$125 rental with an average of \$17 subsidy, or whether the average rental is lower?

The CHAIRMAN: Mr. Mansur might be helpful to us now.

MR. MANSUR: The rentals for these subsidized projects are based upon a ratio of rental to income, and rental charge bears no relationship whatsoever to the capital cost. The average rental paid is of the order of 17 per cent of the income of the family resulting in rents of about \$45 to \$48 a month. The arrangement is traditional public housing with rent geared to income so that a family can secure accommodation suited to its needs within its capacity to pay rent.

The CHAIRMAN: Thank you. Anything further, Mr. Hanna?

By Mr. Hanna:

Q. I would like, if I may, to ask the witness about the statement he makes that section 36 is not extensive enough, that we have not built enough units. May I ask him to what he attributes the cause of the fact that section 36 is not being used? It was section 35 formerly. What is the reason, in his opinion, for greater use not being made of section 35 in the old Act, and section 36 in the new?—A. I think that is a question the experts should answer to the committee. How can we tell you why it is not used? After all, Mr. Mansur says \$45 to \$48. Multiply a dollar an hour by \$40 a week and they still can't touch it.

MR. MANSUR: In which event, Mr. Chairman, the rental would be lower than that. The whole basis is that the rent paid by the tenant is a percentage of his income whether his income is \$300 a month or \$100 a month.

The CHAIRMAN: The question that Mr. Hanna asked was why is not more use made of section 36 of the Housing Act and who would you like to blame for it, excluding the federal government? That is putting it fairly, is it not?

The WITNESS: I can only say this, Mr. Chairman; there is a tremendous demand for it so that from the standpoint of our people as consumers we can only assume the reason not more of it has been done is that more of it has not been constructed.

MR. LOW: I can't hear.

The CHAIRMAN: I think the next question which you will be asked, and I might as well ask you now, is have the Trades and Labor Congress "put the heat on" either the provinces or the municipalities to do more under section 36. I think that is what is in their minds?

MR. BENGOUGH: I think they have in some localities and certainly in some cities. I would say yes. Maybe they could do more of it. I am not saying they have actually done all they could, or that they have reached the limit.

The CHAIRMAN: Anything further, Mr. Hanna?

Mr. HANNA: No.

The CHAIRMAN: Mr. Balcom?

By Mr. Balcom:

Q. On page 6 of your brief in subsection 4 of your second recommendation, "The Central Mortgage and Housing Corporation or an agency of it can take necessary steps to protect the value of the property," I wonder if Mr. Wismer would outline what steps could be taken? Would that include eviction?—A. What we have in mind there is that the total property, depending on where it may be located in a municipality, unless some agency is sufficiently large to influence trends within the municipality, it may become a slum area. The total value of the property may be greatly limited by an industrial project, or things of that sort.

The CHAIRMAN: Mr. Fraser?

By Mr. Fraser (Peterborough):

Q. The question I wanted to ask, Mr. Chairman, has been answered, but I would like to ask a question in regard to page 4. You mention there that it would be sound and very desirable to extend such help and subsidies to those Canadians who have below average incomes. Now, can you elaborate a little more on just what should be done in that regard?—A. Yes, there are a very large number of Canadian families who earn less money than the national average which may be around \$2,300 to \$2,400. At that level of earning it would be very difficult for them to take advantage of the new insured mortgages under this Act. Our suggestion is that you are considering, here in this committee and in parliament, making it easier for people of higher incomes, through a small down payment and through slightly smaller monthly payments, to obtain new houses. The suggestion here is that you should take into consideration the people with below average incomes since their need for new houses is just as great and in order to meet their need you will have to produce something much different from this. The suggestion has been made in the United States, to the President of the United States, and there are bills before Congress now, more or less like this, requesting very small down payments and even no payments at all, since the worker with a very small income is unable to accumulate the down payment, but he still has a very great need to house his family. He is therefore probably just as good a risk, as a continual payer of his mortgage, as the man in the higher income bracket, so that provision should be made to allow the lower income group to obtain new housing.

Q. Well now, I take it from your brief here that you feel that under this Act low income groups cannot take part in this at all, and that they cannot get a loan unless a government agency itself supplies that loan.—A. If the lenders who are envisaged in the present legislation, in Part I, are not prepared to lend money on mortgages involving any less percentage of down payment than this and not for longer periods than 25 to 30 years, and if interest rates are to run up close to six per cent, then there is no doubt that these people with lower incomes cannot get in under this legislation.

Q. I notice in an article this morning in the press it said that the average life of a frame building was only 33 years. What term would you put on a house of that kind, for low income people?—A. I do not know whose figure you are quoting, but it seems to me that there are a lot of good frame buildings in Canada far more than 33 years old and in excellent condition.

Q. I think in Canada they might last longer than in some of the States. I will ask you a question that I asked the Canadian Congress of Labour this morning. Has your congress ever considered using any of your funds for going into this low rental housing under this Bill 102?—A. Constitutionally, I think I am correct in saying to you, we have not any such funds.

Q. That is what the congress said this morning.—A. We have a small amount of money which is invested in the head office building which we have, and all the rest of the money, if you look at the accounts from year to year there is a small surplus over the amount of money which it costs from year to year to operate, and no provision that I know of is made for any accumulation of large amounts of money.

Mr. FRASER (*Peterborough*): Thank you.

The CHAIRMAN: Mr. Adamson.

By Mr. Adamson:

Q. I want to ask the same question that I asked Doctor Forsey this morning. Is it your belief that the only solution for low income housing is a direct government subsidy?—A. It depends on what you mean by "subsidy". I will go a step further. It depends on what you mean by subsidy. You may not have to pay them any money or pay part of their rent or their mortgage, but I think you will have to let them get started on an easier basis.

Q. You think that low rental housing if started on low down payment and extended terms of repayment can be self-supporting?—A. Yes.

Q. Without a direct government subsidy so long as those two points are met?—A. I suggest to you—and I will use Central Mortgage and Housing Corporation as an existing government agency only for the purpose of my reply—that the Central Mortgage and Housing Corporation has the ability to lend money at a rate of interest not much greater than the borrowing power, or the rate at which the Bank of Canada can borrow. That will bring it as low as we can envisage at this point. That money could be loaned to the lower income groups for the purchase of houses without down payment, provided you protect it, as I think we suggested in our last recommendation. In other words, Central Mortgage and Housing Corporation, or any agency it wants to create, could retain the land and retain the ability to see that the dwelling is maintained and the value of the land protected, as far as we can in a free country. Then I think the result would be that you would find the people with lower incomes are just as good housekeepers as are the people with higher incomes, and getting a chance of new housing in that way, that they would pay the debt and the financial operations would be just as satisfactory as would be lending on a mortgage to a person with a substantially higher income.

Q. Then I do not know whether that fits in with what you say on page 4, as far as those people who have below average incomes are concerned—the penultimate line of the first paragraph on page four. Then you believe that it is merely a question of being able to borrow money cheaply and lower the down payment and extend the period of amortization of the debt? Do you believe that if these three conditions are met you can solve the problem of low income families?—A. If you lower the interest rate, and the down payment, and thereby are able to extend the payment period, you will extend tremendously within the Canadian economy the number of people who can purchase a new home.

Q. You take a little more sanguine view than Doctor Forsey did this morning. I think he felt that a direct subsidy is necessary, as I understand it.

Mr. Mansur, I do not want to ask you this question now but, as this question of low rental housing has come up, I wonder, Mr. Chairman, if I could ask Mr. Mansur whether he would give the committee some information as to the low rental housing in the United States—what they have done—so that the committee will have some information in that respect, because it is obviously a question that is of vital importance to the whole question of housing.

The CHAIRMAN: Mr. Mansur, will you make a statement on the American scene at some later time after you have an opportunity to prepare it? Mr. Fraser.

By Mr. Fraser (St. John's East):

Q. I would like to ask Mr. Wismer a question concerning the proposals in the United States by President Eisenhower's special committee referred to on page four of the brief. These proposals, I understand—of course, they are only proposals as yet—provide for no down payment and a 40-year amortization period.—A. That is what I understand.

Q. Would that not have the effect of increasing substantially the cost to the purchaser of a house in the long run?—A. If you stick to six per cent, the longer the period you have to pay six per cent the more it will cost.

Q. Do you think, then, that the advantages of that plan outweigh the higher costs that would be involved?—A. Yes.

Q. You think so? One other question, if I may, Mr. Chairman. Do you think that the standards under the Central Mortgage and Housing Corporation are perhaps too high, and that lower cost houses of an adequate nature could be constructed?—A. I am not an expert on building construction as such, and I do not think—

Q. You have no information on that?—A. No.

Mr. FRASER (*St. John's East*): Thank you.

The CHAIRMAN: Mr. Stewart.

By Mr. Stewart:

Q. Perhaps Mr. Wismer can clear up more satisfactorily a question that was raised this morning. There seems to be an impression abroad that the Congresses have massive funds socked away that could be used. I would like to ask Mr. Wismer whether his Congress depends on small per capita sums paid by various unions throughout the country to the Congress? Is that how you finance yourselves?—A. Entirely.

Q. Is that sum adequate to let you get by?—A. We have a very accomplished secretary-treasurer who looks after the books very well, and he manages a surplus each year, but it is not a very large one.

Q. Would you like to have more money just for building? I am suggesting that the income you get is not sufficient to enable you to put by any reserve, to contemplate a reserve for building?—A. I should think we would go a step further and say there is nothing contemplated in a budget such as ours, which is a central body to which other organizations affiliate, and which exists to assist the workers in their legislative efforts. It exists to assist in the organization of workers and their legislative efforts, but there is nothing in that set-up which would envisage at all the accumulation of vast funds for investment purposes.

Q. You are in reasonably close contact with workmen across Canada. Would you say that a substantial proportion of those who are earning less than the average, nevertheless have a great desire to own their own homes, if they could find ways and means of doing so?—A. Yes.

Q. Is it your experience that those in the low income groups relish the proposition of two-family units living in the same unit?—A. You mean do they prefer it?

Q. Yes.—A. No.

Q. You mean they would prefer having their own homes, as far as possible.—A. We are sure of it, and we suggest they would rather own their homes than rent them.

Q. Yes. And by owning their own homes do they become perhaps better citizens, better established in the community?—A. I would think so.

Q. Have you any idea how many man hours of labour go into a modern five-room bungalow?—A. No.

Q. I would like to find that out. How does it compare today with 10 years ago? How does the industry shape up in the way of efficiency in your

view? I would like to know if the witness knows how many man hours of work go into the average five-room bungalow?—A. We have figures in our office, but we have not brought them with us.

Q. You mean they are not available just now?—A. Are you trying to check Mr. Firestone's estimate?—Q. No. I am trying to compare the efficiency of the industry; but if you do not have those figures you obviously are not in a position to answer the question. That is all I want to ask you just now.

The CHAIRMAN: For the information of the committee, let me say that the reference to 40-year housing loans in the United States is in the bill which I have before me. It deals with low cost housing for families displaced as a result of slum clearance operations or government action. That is a reference to the 40-year term. What they are planning in the States is an entirely different matter.

The WITNESS: We were not referring to that bill, Mr. Chairman. There is that bill as well as another one now before the Congress. We were referring to the presidential advisory committee which made a report in which it suggested that there be no down-payments and that there be a 40-year mortgage, offered for the lower income group. It found its way into this bill for people who were displaced by slum clearance. So you see it is a bit watered down from the recommendation which was given in the presidential report.

The CHAIRMAN: Mr. Philpott.

By Mr. Philpott:

Q. On page 4 you say:

This, however, falls far short of the recommendation of the Trades and Labor Congress of Canada to the government of Canada last December which was to adjust the down payment "to a maximum of 10 per cent"

Why do you say "to a maximum?" Surely you would not want to put a limit on a person if he were prepared to pay off 20 per cent, would you?—A. The government has set 10 per cent as the down payment for defence workers and we are asking the same treatment for all workers. It was with that idea in mind. The government had already mentioned the 10 per cent down payment, and we were urging that that figure might be used to set the down payment. It is in the same bill which the chairman referred to, which is before the United States Congress. They are providing for that in the way of a lower down payment which on a \$10,000 house would get down to a 9 per cent down payment.

Q. What you are asking for is that everybody be put on a par with the defence workers?—A. I would rather answer you this way, Mr. Philpott: What we are urging is that 10 per cent be considered the maximum down payment for the purposes of legislation of this type. I do not think we would object to the saving exception that you have in Bill 102 which says that where, upon written request the owner says he would like to put down 25 per cent, he would not be denied the benefit of the operations of the bill. But such people are few and far between.

Q. Everybody realizes that the lower the price of the house, the more people can buy that house. Has your organization given much thought to ways and means of lowering prices of houses and construction?—A. Well, I suppose a good deal of thought has gone into it. We represent the majority of the building trades, though as you probably know, in house building, there is very little really hourly paid employment. It is done by sub-contract employment. But I can say that all the people in the building trades have

given a great deal of consideration to it. The wage content in a house, of course, is not as great as some people would suggest. In the over-all cost of the house it is the cost of the money which raises the big problem.

Mr. ADAMSON: The cost of what, please?

The CHAIRMAN: The cost of the money.

By Mr. Philpott:

Q. According to the experience of your organization over a period of years would you say that the wage cost has not increased, or that efficiency has increased in keeping with rising wages?—A. Yes.

Q. We had a statement made the other day in debate that if construction workers could be guaranteed an annual wage, then it might be possible materially to reduce the cost of construction of homes. Have you any comment on that?—A. Well, if you take Mr. Firestone's figure of 37½ per cent as being the total wage and salary bill in the production of a house, and if you cut it by, let us say, 10 per cent, then the cutting in the over-all cost of the house would only amount to 3.75 per cent.

Q. I other words, you do not think so much of that argument?—A. I agree that anything which can increase efficiency is bound to bring down the over-all cost. But when you are only dealing with the smallest factor in the cost of the house, it is not likely to produce very much in the way of savings, even if you do make substantial savings in the wage bill.

Q. Your organization is like the one which appeared before us this morning in that you offer a very far-reaching recommendation. We know perfectly well that the principle of this bill has already been passed by parliament and that the bill we are to get is likely to be substantially the bill that has already been passed. Therefore, would not your organization be more useful for yourselves as well as for the country in this year 1954 if you put your whole weight behind making this particular bill a success, as it now is? What has your organization ever done toward putting its whole weight behind local movements in order to get section 36 really rolling on rental projects and so on?—A. Well, Mr. Philpott, we have 70 councils in Canada operating in local areas and I know for certain that the very large majority of those councils have made great efforts to obtain action on these projects.

Q. Then it would be your opinion, notwithstanding the fact that this bill as it stands now is not all that you would like it to be, and that even as it is, there are definite provisions in this bill such as section 36 that would go a very long way towards meeting the "weight" that you said has to be met, if your people would really get behind it and push it?—A. Well we can continue to push. We have seen in some of these cases where these projects have got under way as a result of our pushing and I am sure they will continue to push, but that does not reduce our desire to push as hard as we can at this level.

The CHAIRMAN: Mr. Hunter.

By Mr. Hunter:

Q. I was very interested in your remarks on page 3 down at the bottom where you say:

All of which suggests that either the 23 per cent rule should be disregarded altogether, or made much more flexible . . .

Now as I understand it the rule has been from 23 per cent to 27 per cent. We all know that last year at least a judgment was made as to what a man can pay. Would you mind explaining that statement which is a very interesting one?—A. The suggestion there is this: that rather than have an arbitrary percentage rule, we would like to see more flexibility in each particular case. Perhaps administratively there is some reason for having a simple rule of thumb

on a 23 per cent or whatever magic there may be in that particular figure; but there may be very many people who on the face of it, when the actual rental is decided on, could well qualify in your opinion even though the monthly payment might be slightly higher than that percentage of his income.

Q. Do you feel then that each case should be considered on its merits and not on the basis of some rule or regulation?—A. Yes.

Q. And that possibly a person in some circumstance even at a third of his income might be a good risk?—A. Yes.

Q. That is your position?—A. Yes.

Q. When you were talking about the costs of labour in housing and giving the percentages you did, I presume you were talking of the on site costs?—A. Yes.

Q. And that the off site costs are another tremendous proportion?—A. The building materials.

Q. Yes.—A. There is no doubt there is a very great cost in that.

Q. The off site and on site cost is a very large percentage of the cost?—A. I think Mr. Firestone figures that the labour content on a house is extremely large if you take all that goes into it.

Q. I think you said that one of the main difficulties to a person buying a house was the cost of the money. I do not quite get that.—A. I could explain this way: we talk about a \$10,000 house. In my opinion there is no such thing. Under this legislation if you take a \$10,000 house, under the provisions of part one I think at 5½ per cent it comes out to about \$17,000 on a 25 year mortgage.

The CHAIRMAN: Over 25 years?

The WITNESS: Yes. So you are talking about a \$17,000 house.

By Mr. Hunter:

Q. That is a point of view.—A. You are asking what we are talking about.

Mr. MACDONNELL: Is it not very important what point you begin from?

The WITNESS: Yes. But the individual purchaser has to pay all the materials and all wages and overhead that go into his house, and that is assumed, if you like, at \$10,000, but for the privilege of getting into the house he is committing himself over the next 25 years to pay \$17,000. In other words, the money costs him \$7,000. I am not arguing whether that is right or wrong, but that is what he is involved in.

Mr. FRASER (Peterborough): But that extra money would include rent really, because he would have been in the house for those years?

The WITNESS: Yes.

By Mr. Johnston (Bow River):

Q. There is one question I would like to ask the witness. I notice in his remarks on page two, at the bottom of the page, he says: "We are not greatly concerned whether the mortgage funds come from a bank or a trust company or an insurance company." Now, I would just like to know whether or not he has in mind that loans should come from one of these companies?—A. Oh, no. What I am trying to say is that while I know that this bill provides for a new tapping of savings through making it possible for the banks to lend on mortgages, from our standpoint we are prospective purchasers of new houses and it is of no significance to us whether or not the savings attached to the mortgage are savings in the bank account or trust company or any other lending institutions approved under this legislation.

Q. This morning Dr. Forsey said to us on page 7 of his brief: "why should not the government lend direct, through C.M.H.C. and insure itself?" What comment would you make on that?

The CHAIRMAN: Mr. Johnston, I do not think you should put the witness in the position of having to comment on that. Try and make it a direct question.

By Mr. Johnston (Bow River):

Q. In view of the fact that the witness has named the companies which he did on page two of his brief would he go further and say that the C.M.H.C. should be used as a lending institution?—A. We have suggested, Mr. Chairman, further on in the brief that the Central Mortgage and Housing Corporation should remain in the lending business of mortgages.

Q. What rate of interest would you suggest that Central Mortgage and Housing may be able to loan at?—A. If Central Mortgage and Housing were competing with the other lending institutions throughout the country, I think they should stay at the competitive rate, but if they are lending in a field in which the others are not lending as, for instance, the field we are suggesting of low income groups so that housing in that group is sufficient, they should lend money at as cheap and low a rate as they can. If they get the money through the government at 3 per cent or 4 per cent it should not be very much over that at which they lend the money back.

Q. If Bill 102 has as its intention to lend money for people in low income groups then that would put them into a major field of lending. What effect do you think it would have if Central Mortgage could lend money at say 3 per cent for this type of housing we are speaking about to those people in the low income groups; what effect do you think that would have on the amount of loans made by the companies which you suggest? What would that effect be in regard to general interest rates of mortgage companies, insurance companies and so on?—A. I am not a banker. I would think that what we are suggesting is—and I think this is an answer to your question—that basically it would have very little if any effect on the general interest rates, since what they are doing would not be directly competing with the other lenders, and perhaps from year to year the total amount of money which is involved would not greatly disturb the capital market.

Q. You think that it would be in the general interests of Canada and for particularly those people in the low income groups if the policy of the government were changed to permit Central Mortgage and Housing to make loans at lower rates? The brief refers to lower costs and subsidized housing but there is no direct comment on section 36. Is the Trades and Labor Congress satisfied with section 36, and if not what changes would they suggest in it?—A. This is the section whereby the government of Canada can make an agreement with the province and municipality to do this, but as you know, some provinces still will not do anything about it. I have one in mind where for a time our people made active efforts to try to get the provincial government to get into a deal of this sort. Without suggesting that that section is not useful, we are trying to suggest to you that there are ways and means of getting to the needs of the Canadian people without involving these complicated arrangements.

The CHAIRMAN: Mr. Low?

By Mr. Low:

Q. Yes. Mr. Chairman, I would like to go back to what Mr. Johnston was asking about. There was a question which I think should have gone on the record about that time referring to what Mr. Wismer said in his brief at the bottom of page 3: "All of which suggests that either the 23 per cent rule should be discarded altogether, or made much more flexible, or that provision should be made for lowering the interest rates. Perhaps both should be done." I wondered if Mr. Wismer had any specific suggestions by which interest rates

could be reduced for low income housing?—A. Well, Mr. Chairman, if this committee through parliament should encourage Central Mortgage and Housing Corporation to stay in the mortgage lending business for the purpose of lending to low income families, it could be assumed that, not being a profit making organization, it could lend money at substantially lower interest rates than $5\frac{1}{2}$ per or 6 per cent, since the money can be borrowed by the government of Canada for a reasonable term at somewhere between 3 per cent and 4 per cent.

The CHAIRMAN: I think it is 3.75 per cent.

The WITNESS: We are not suggesting any subsidization of the interest rate.

Mr. Low: That is the point I wanted to get: if you had in mind the government borrowing say from the people, or making advances out of general revenue to Central Mortgage at the going rate, say $3\frac{3}{4}$ per cent or $3\frac{1}{2}$ per cent, whatever it happens to be.

The WITNESS: Yes.

By Mr. Low:

Q. Without subsidiation?—A. Yes.

Q. There was another question. Has the Trades and Labor Congress made any studies of the physical costs of building houses?—A. Well, I think it is fair to say our president has been very much involved with the National Research Council for a long time and has been aware of the work that has been done there as to the standards we should have in construction, the types of materials which can be used, and so forth, but as to the method of construction and as to one method being less expensive than another, we have not made investigation into that.

Q. Nor have you made investigation into the costs of materials and services that go into the building of houses?—A. Well, there has been a great change in the materials used, in many cases. We have not investigated to see whether they are unreasonably priced, if that is the sort of thing you meant.

Q. That is what I wanted to know, yes. Some of the organizations in Canada have made such studies and I wondered if your organization had made any?—A. On the other hand, we have an organization affiliated with us which is very much concerned with the construction of houses which is very much different than it used to be in that some of them were very bad fire hazards. I am talking about the International Association of Fire Fighters who are actively working all the time to have houses constructed so they will be as fire safe as possible.

Q. I notice too, Mr. Wismer, that while you did not mention low rental housing as such, you did refer to it, I think, in your summary of recommendations on page 6 as "new housing on long-term leaseholds". I was interested very much in that reference because it is quite different from the type of solution that has been made heretofore, and I wondered if what you had in mind was in the nature of a low rental subsidized housing program?—A. Not exactly. The argument which is often put to us is, that if you require no down payment and require a small monthly payment, that the house will more or less be all through by the time the mortgage runs out. What protection has the lender if the purchaser will not maintain the property? What is there to transfer to someone else?

Mr. Low: I get the idea.

The WITNESS: So the suggestion we are making is this, that here you have many many people in this country who, as things are going, just do not earn enough money to put aside a down payment and pay for a house within 20 to 25 or 30 years. They have to pay for it over their lifetime. But still it would be to their advantage and to the economic and social advantage, that they be

home owners and that they own new houses. Now, how do you get started? If you are a young couple getting married and going to raise a family, the best place to do that is in a new house in a new district.

The CHAIRMAN: I am told that any kind of house will do!

The WITNESS: For certain purposes, Mr. Chairman?

Mr. Low: For the first while, anyway.

The WITNESS: If you can do that without a down payment and with a small monthly payment, presumably the way you can do it and protect the money which is invested is through some arrangement of this sort where the land does not go with the house and where the lender is in a position to require certain maintenance of the house and the property generally, and resist any unfortunate developments in the municipality and the surrounding area which may, as we know has happened in the past, destroy the value of this development. It is not, I suppose, very greatly different from the long-term leases that we know of in commercial properties.

Mr. Low: It was interesting to me; and that is the reason I picked it out; and I noticed too, Mr. Chairman, there was nothing in the brief that laid emphasis on low-rental housing. I just wondered if the T.L.C. had felt that this long-term leasehold proposition would take the place of that?

The WITNESS: We are suggesting to you, Mr. Chairman, that something along this line will inevitably come—it will be the only way to provide housing for the majority of people.

The CHAIRMAN: Mr. Hunter?

By Mr. Hunter:

Q. Mr. Chairman, I was very interested in the statement on page 5 of the brief where Mr. Wismer points out that Central Mortgage and Housing Corporation should provide for new housing loans to the lower group of prospective purchasers on the basis set out there. This statement was also made by Dr. Forsey; I am quite interested in the application of it. For instance, this would obviously involve the application of some type of restriction, I presume, and you would have to establish the income, and you would have to make a certain figure somewhere, the figure below which this would be applicable. That would seem to assume that these people will never earn any more. Assuming they increase their earnings and get well past that as time goes on, are you to re-negotiate their mortgage? These are problems, I realize, that would be inevitable if you get into this, and I wondered what study you had given to that part of it?—A. I say this to you. I think the Canadian Construction Association said to the cabinet or to the Minister of Public Works, that they think open-ended mortgages would be a good thing, that a man should not have to go through all the expense of re-negotiation and of getting another mortgage later on to extend the size of his house. I believe, and I think this is what we have in mind when we say this, we have to be a lot more flexible in our way of dealing with house building and the mortgaging of property. The lengthening of a mortgage from anything like 5 or 10 years up to 25, 30 or 40 years, must envisage some change, from time to time, in the ability of the purchaser to pay. If he is a young man with a family, purchasing his home, he may be a person who will never earn more than a dollar an hour. He may be, on the other hand, a person who might become a chief executive later on. Now, what I am suggesting in the flexibility of the mortgage, is that he will be in a position to easily transfer it or pay it off, or the original lender should probably have some ability to re-negotiate with him.

Q. In other words, you would envisage that if he became of a larger earning capacity he should not get the privileges which should be reserved for the lower income group, or rather he should not continue to have them?—

A. I think there should be some provision of that sort.

The CHAIRMAN: Mr. Cameron?

By Mr. Cameron:

Q. What do you consider to be the most important obstacle in the way of those in the low income groups purchasing a house: the down payment, the size of the monthly payment, or the period of amortization? What is the worst hurdle to get over?—A. The toughest hurdle is the down payment.

Q. Could you give me any idea of what would be your estimate of the size of down payment that a family—I notice you have a figure of \$2,600—supposing you say a family earning up to \$3,000—could afford for down payment?—A. It would be under \$1,000.

Q. That would have to cover the cost of the lands as well?—The whole of the money they would have to raise at the start?—A. I would say that for people of that sort, if he has to raise more than \$1,000, he puts himself in a position of struggle before he starts.

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell:

Q. You are aware, I think, Mr. Wismer, that Mr. Mansur when he spoke to us gave as the figure of effective demand at the moment 125,000. That is as the law stands. If the suggestions which you make at the bottom of page 5 were adopted, I take it that would greatly extend the area of effective demand; it would bring in new people who under the new law would enter the category of effective demand. Now, how would you choose those people to be entitled to the legislation? Would there have to be a kind of reverse means test? Would you have to select the people who would be entitled to get the benefits of the Act on the basis of their need and exclude those that were better off?—A. I suggest, Mr. Chairman, that under the present legislation you are looking ahead with the view that, as Mr. Mansur said to you earlier in these sittings, with this legislation something like 25 per cent more houses would be built per year than were built last year. That would indicate that the construction industry is capable of doing that, and I see that confirmed by the construction industry's suggestion as reported in the newspapers last night. Those are for the people with above average income, which this legislation will assist. Our suggestion to you is that if you do something for the people of below average income then you will have to trim something off those of above average income if the construction industry cannot go beyond 125,000 a year.

Q. I see that. One other thing is related to that. We had two questions this morning which did not seem to me to be very clearly answered. One has been raised again this afternoon, but I am curious as to the answer yet. We are talking about the actual cost of the burden which the home owner assumes when he starts off. Let us say \$10,000. Mr. Mansur told us of the difficulties of meeting the standards that most of the municipalities have adopted—standards which I understand come from the National Research Council. He told us also that in one instance, in Newfoundland, they were going to have to lessen the standard to make it fit the locality there. Have you given detailed thought to the question of the present standards, and assuming we want to produce the best houses we can for the maximum number of people, whether there is any argument for building a somewhat cheaper house?

Mr. BENGOUGH: Of course, we have done that through the National Research Council; that is the building division of the National Research Council, which has a body of experts and also contractors and representatives of labour on that committee. Now, they have set up standards which have been sent out across the country and, quite frankly, I do not think you could

come below that. That is their opinion and we subscribe to that. I do not think it would be good to build cheap houses; that is, cheap to the point where they were of faulty construction and where the services in the houses were not good. A house has to be up to certain standards if we are going to have anything like a home at all, and I think to get away from that would be very bad.

Mr. MACDONNELL: I do not think anyone would suggest—

Mr. BENGOUGH: That is what they have done. They have set out an exhaustive study. There are volumes of it. To take a different angle on house construction—

Mr. MACDONNELL: I understand that those who have approved those standards are not merely those who have to do with the building of the houses, but they were going to live in them?

Mr. BENGOUGH: That is true, very definitely.

By Mr. Macdonnell:

Q. That, I think, answers my question. One other question. At the top of page four, you say: "Each time we have made this request"—that is the request to provide low cost housing and low rental housing—"we have been told that the government was not prepared to subsidize housing since this would create a privileged group." Does that mean purely that you were going to be helping some people who were not helping others, or does it go beyond that to the point where you were going to create a privileged group, in the sense that certain taxpayers would have houses, which they would be assisted to get, better than other taxpayers who would actually be paying taxes in order to subsidize them? Is that part of the "privileged"?—A. I can only say what the government has said to us, that they would not do it because they felt that they could not justify giving a privilege to one at the expense of the other.

The CHAIRMAN: Mr. Wismer, we are doing just that, and have been doing it since 1949, to everybody's knowledge.

The WITNESS: We are not suggesting that we agree with the government.

The CHAIRMAN: But when you say that the government was not prepared to subsidize housing, as this would create a privileged group, I declare that the government could not have possibly said that since 1949, because from that time they have been subsidizing housing.

Mr. MACDONNELL: You mean, they could not possibly have meant it?

The CHAIRMAN: They could not have said it. They have been subsidizing homes since that date. Actually if gentlemen of the committee will refer to table "A" of the proceedings of first meeting, it indicates that there are some 1,700 completed subsidized units, 3,765 under way, 14,185 committed, a total of 19,662 units that are subsidized. That is only one method of subsidization. I point that out now so that we may know exactly what we are talking about.

Mr. QUELCH: In 1949?

The CHAIRMAN: Since 1949.

Mr. CAMERON: Isn't the record referring to the subsidization of the rents?

The CHAIRMAN: Subsidized housing through rents.

Mr. CAMERON: That is what Mr. Wismer was referring to. The government has not done anything about subsidizing of rents.

The CHAIRMAN: That is exactly what the government is doing. There is subsidization of rent; the rent is fixed on an income basis, that is on the

basis of the income of the man who occupies the premises. Mr. Wismer is saying that the interest rate which he is prepared to have the government charge is what it would cost them to borrow the money from the public plus administrative costs.

I have no more names on my list, Mr. Wismer is now fair game.

Mr. MACDONNELL: Mr. Chairman, I have one more question. Mr. Wismer has talked a great deal about the start of these rental houses but I notice at one stage there was a strong statement made that it was better to own than it was to rent. We believe in that, theoretically; but at the moment, having regard to mobility, what is most needed? Is it rental housing or home ownership?

The WITNESS: I am afraid that I would have to say that low rental is the greater need, Mr. Macdonnell.

Mr. FRASER (*Peterborough*): I think you would.

Mr. MACDONNELL: Is there anything further you would like to say on that? I have felt that way and I have come to that conclusion perhaps unwittingly just through sitting in this committee. But I think it is important because in my own opinion that is one one of the questions which might be raised about this legislation, namely, whether its benefits are not directed almost entirely toward encouraging home owners and not toward the creation of rental houses. I asked Mr. Mansur this same question the other day and he was inclined to agree with what you said, but he added that some of his colleagues did not agree with him. I think that was his answer.

Mr. BENGOUGH: I think that is the immediate need. There is certainly a great need for both low cost as well as rental housing.

Mr. MACDONNELL: That is just as important.

Mr. BENGOUGH: I would say that there was an immediate and urgent need for low rental housing. We have been asking the government for it these last two years.

The WITNESS: Mr. Chairman, along this line if I might add a word, it was suggested to your committee the other day that the banks might put up \$100 million a year on new mortgages. I think Mr. Towers suggested it. That would allow Central Mortgage to move out of any of its lending arrangements, if I am correct. Well \$100 million—if Central Mortgage is in to that extent—could be very well used to direct loans towards the lower income groups where the need is terrific for new houses. It would probably not produce a lot of new housing, but it would mean a substantial amount. If the money could be moved in that direction, then the other savings could be tapped through your legislation as you now have it, for the higher groups.

By Mr. Macdonnell:

Q. Why do you say "rental" instead of "ownership"?—A. I would prefer that it be "ownership".

Q. Yes, but nevertheless you say "rental" and I am anxious to know why.—A. Because, under the present way of doing business, it would allow the lower income people to move in as soon as the housing was ready without the financial obstacle of a down payment. That is the trouble.

Q. Do you also believe that there is an argument for not having too many people tied down to the obligation as well as to privilege of home ownership? In other words, is the possible desire to move an argument in your mind at all; that is, mobility?—A. We have always argued in the Congress that we believe in mobility of labour. But I should not say that it was a cardinal point of our thinking in arguing for rental housing.

The CHAIRMAN: Mr. Adamson.

By Mr. Adamson:

Q. Mr. Wismer has stressed all through his evidence that it was the cost of money that was the primary obstacle to low rental housing. I wonder if his Congress has ever made any study of the American system by which tax free bonds and debentures are issued for the purpose of financing municipal affairs? I have before me the Wall Street Journal wherein it is stated, for instance, that the State of Oregon on February 18 issued \$5 million of veterans welfare bonds to be used for welfare purposes for veterans. I assume that would include houses. They will be issued at a price to yield from $1\frac{3}{4}$ per cent to $1\frac{5}{8}$ per cent. Has your Congress ever made any study of the feasibility of Canada doing the same sort of financing?

Why I mention it is this: I realize that all the chartered banks and mortgage institutions are violently against this proposal. I also noticed, and I was rather surprised, to see that a number of Canadian underwriters have gone into this market of tax free American bonds and that their names appear in the Wall Street Journal. Has your Congress ever made a study of that, in view of the fact that you stress the argument that it is the cost of money which is the stumbling block for low cost houses?—A. Well, Mr. Chairman, we as a Congress have always—perhaps not always, but certainly we have said annually to the Minister of Finance and to the government: “Level, or even out the burden of taxation over the whole population.”

Sticking to that stand, we could hardly recommend that certain people ought to be able to have a tax free privilege.

Q. Please go on.

Mr. BENGOUGH: We even went so far, as you know, to start Gerry McGeer on his conquest of poverty with his phoney money.

The CHAIRMAN: Please do not get on to that. Now, Mr. Robichaud.

By Mr. Robichaud:

Q. Mr. Wismer, you stated, if I understand you correctly, that the letting of sub-contracts for the construction of new homes is a common practice. Is this not a factor in increasing the cost of housing?—A. I do not know how it would be an increase. I mentioned it because quite often the real rates of pay which you hear about in various construction trades are used in calculations to find out how much it would cost, or add to the cost of a house, whereas in practice those real rates of pay are not paid because the sub-contractor takes a contract, and normally he will act in a way to speed it up because the faster he works, the more in effect he will get per hour for his work, since he takes the sub-contract at a fixed figure.

Q. Thank you.

The CHAIRMAN: Now, Mr. Balcom.

By Mr. Balcom:

Q. Mr. Wismer stated a short time ago that he believed in the mobility of labour. I wonder if Mr. Wismer confines that mobility within a province or within certain provinces?—A. Within Canada, Mr. Balcom.

Q. Within Canada.

The CHAIRMAN: Would you mind indicating to us what the average hourly rate of pay is of the members of your Congress?

Mr. BENGOUGH: You mean in the building trades?

The CHAIRMAN: Yes, in the building trades.

Mr. BENGOUGH: I would have to guess at the figure, but I would say the average stands at about \$1.80.

The CHAIRMAN: \$1.80. Was that the basis for your figure of \$2,600 in the brief?

The WITNESS: No. The building trades comprise but a section of the congress. They are not anywhere near half of it or anything like that. Our membership is made up of a very large number of people, many of whom are salaried workers, while others work in plants, on the railways, in shipping, and in the grain trade.

By Mr. Stewart:

Q. May I ask what was the annual income of these men who were getting \$1.80 in their work?—A. A 40-hour week at \$1.80.

Q. How many months would they work?—A. They probably worked seven months out of twelve.

Q. So that their annual average income is much lower than the \$1.80 an hour spread over the twelve months?—A. Yes.

By Mr. Follwell:

Q. I would like to ask Mr. Wismer one question that was asked this morning: what in your opinion, or in the opinion of your association, is considered a low income family?—A. Below \$2,500.

Q. Mr. Wismer, I noticed on page two you point out that the obstacles you want removed are excessive down payments, and exorbitant carrying charges on the unpaid balance. Could you tell the committee what you think are excessive down payments and exorbitant charges?—A. It depends on the income level naturally. If you have a high income maybe a 40 per cent down payment is not out of the way, and perhaps you would be prepared to pay 6 per cent or even more on the balance.

Q. It is just a matter of opinion?—A. No. Once you come down the income scale it becomes an impossibility to make the down payment or even to make the monthly payments. The down payment, the interest rate, and monthly payments, are all tied together or are all involved in the calculation plus the amount of time you would have to pay it off in. So, for a man making \$10,000 a year the down payment may not be excessive, but for a man making \$2,000 a year it is. It is not a matter of opinion; it is a matter of income level.

Q. It is a matter of what the applicant considers is reasonable as far as he is concerned. A man making \$4,000 might be prepared to forego certain things, and a man making \$2,000 might not?—A. We are suggesting flexibility. Supposing that this receives royal assent and it goes into effect, and I go into the bank manager to borrow money on mortgage for a \$10,000 house, the first thing I have to have is \$1,400; if I do not have \$1,400 it is pretty certain that I won't get the loan. After that he looks at my income and he will apply the means test and right then and there see what sort of money I have to pay with and if I cannot meet the 23 per cent rule I am out, even if I have \$1,400 to put down as a down payment. We are suggesting that is much too rigid and should be more flexible.

Mr. ROBICHAUD: Was there not flexibility made by Central Mortgage and Housing Corporation in the cases where the 23 per cent was not absolutely complied with?

The CHAIRMAN: Mr. Mansur gave evidence that in 17 per cent of the cases the rule was not applied, I believe Mr. Wismer concurs in that and agrees that is a good idea.

The WITNESS: I would rather it had been 87 per cent.

The CHAIRMAN: I have a rather interesting memorandum here from Mr. Mansur that will interest the committee. He points out some of the reasons

that are normally given for rental housing; people want a temporary residence; changing family circumstances; matter of personal preference; lack of down payment; desire to live in the down town area where home ownership is not feasible.

By Mr. Fraser (Peterborough):

Q. Is there not another one? Is it not the fact that many of those who wish a home do not want to take on the responsibility of buying?

The CHAIRMAN: That is what he said, personal preference.

Mr. FRASER (*Peterborough*): They do not want to take on the responsibility.

Mr. ADAMSON: They might want to use their capital for something else.

The CHAIRMAN: Most of these people we are talking about have not got too much capital.

Gentlemen, tomorrow afternoon we have the Canadian and Catholic Federation of Labour at 3.30. Then of course we are on again Thursday and Friday.

Now gentlemen, on your behalf, I want to thank Mr. Bengough and Mr. Wismer for the very excellent brief they have presented and for the subsequent information that they gave us.

Canada, Banking and Commerce,
" "
standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

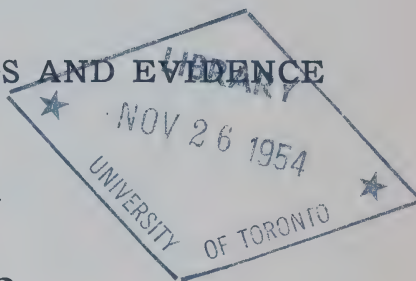
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

WEDNESDAY, FEBRUARY 24, 1954

WITNESS:

Mr. Fernand Bourret, an official of The Canadian and Catholic Federation of Labour.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 24, 1954.

The Standing Committee on Banking and Commerce met at 4.45 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Ashbourne, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Croll, Dumas, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Henderson, Huffman, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, McIlraith, Michener, Philpott, Pouliot, Robichaud, Stewart (*Winnipeg North*), Wood.

In attendance: The Honourable Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation; Mr. Fernand Bourret and Mr. Roger McGinnis, officers of The Canadian and Catholic Federation of Labour.

The Committee resumed consideration of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

The Chairman placed on the record a letter received by the Clerk from The Canadian Legion of the B.E.S.L. setting forth the reasons that organization did not wish to appear before the Committee on Bill No. 102.

Mr. Bourret was called and presented a brief on the Bill under consideration.

Mr. Cannon read the brief into the record.

The witness was then examined on the said brief.

At 6.15 o'clock p.m., the examination of the witness being concluded, he was retired, and the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, February 25, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

FEBRUARY 24, 1954,

3.30 P.M.

The CHAIRMAN: Gentlemen, I see a quorum. The clerk of the committee has received a letter from the Canadian Legion of the British Empire Service League indicating that they would not be making a presentation to the committee. I am taking the liberty of putting the letter on record.

FEBRUARY 23rd, 1954.

Dear Mr. Gratrix:—
Clerk of the Committee,
House of Commons,
Ottawa, Ontario.

Dear Mr. Gratrix:—

In reply to yours of February 15th informing us of the date upon which the Banking and Commerce Committee is prepared to hear evidence *re* the new housing bill, please be advised that having discussed this matter with the chairman of our National Housing Committee and also with the Dominion President I am instructed to say that since the Dominion Executive Council submitted representation reference housing to the Prime Minister and Cabinet on November 9th, 1953, it is considered unnecessary that we should now submit further representation to the Banking and Commerce Committee.

The problem at the moment as we see it is to provide low cost housing for ex-servicemen and their families who cannot purchase housing accommodation under any existing legislation. Our proposal to the Prime Minister and cabinet asks that the "Build Your Own Home" program presently being operated by V.L.A. be extended, and that direct loans be available through V.L.A. to ex-servicemen seeking to build their own homes. Experience has shown that adequate housing can be built under this plan for an actual cash outlay of seven or eight thousand dollars whereas the same home built for sale by a contractor would cost \$12,000 or more. We feel that if we can concentrate on the proposed plan the vast majority of ex-servicemen still seeking living accommodation will eventually be taken care of.

Yours sincerely,

T. D. ANDERSON,
General Secretary.

We have with us today Mr. Fernand Bourret, one of the officers of the Canadian and Catholic Federation of Labour, and Mr. Roger McGinnis who accompanies Mr. Bourret.

On their behalf I wish to apologize to the committee. They unfortunately got caught in the snow storm and were held up on the outskirts of the city. They came here as quickly as they could. Their brief is in French. I have asked Mr. Cannon to translate the brief for us and he will do so.

MÉMOIRE SUR LA CONFÉDÉRATION DES TRAVAILLEURS CATHOLIQUES DU CANADA SUR LE BILL 102

Le problème de l'habitation intéresse grandement la Confédération des Travailleurs catholiques du Canada. Elle a déjà mis sur pied un comité permanent chargé d'étudier le problème du logement et de trouver des moyens de soulager les besoins de logement de ses membres.

Par exemple, le Conseil central de la ville de Québec mettait sur pied, l'an dernier, une coopérative de logement qui réussissait à construire dans la banlieue de Québec, une maison unifamiliale de 7 pièces, réparties sur deux étages, pour le coût total de \$6,000.

L'expérience a été tellement concluante que les caisses populaires de Québec sont prêtes à financer la construction de maisons semblables, construites selon les mêmes principes et de prêter \$5,500, sur ces maisons, de sorte que la mise de fonds initiale sera de seulement \$500.

La C.T.C.C. comprend qu'il est impossible d'adapter la formule utilisée à Québec pour régler le problème du logement sur le plan national. Aussi appuiera-t-elle toute législation ou projet de législation qui contribuera à améliorer la situation logementaire des Canadiens.

LE BILL 102

Le 21 janvier dernier, l'honorable Robert H. Winters proposait la deuxième lecture du Bill 102, favorisant la construction de nouvelles maisons, la réparation et la modernisation de maisons existantes ainsi que l'amélioration des conditions d'habitation et de vie.

La C.T.C.C. s'est rendue compte que d'un côté comme de l'autre, le projet de loi a été longuement discuté à la Chambre, les uns y voyant un moyen de régler une fois pour toute le problème du logement, les autres, mettant en doute les résultats envisagés par la mise en application de la nouvelle loi.

La C.T.C.C. remarque que le projet de loi conserve tout d'abord qu'une grande partie des dispositions de la Loi nationale sur l'habitation mais qu'il s'en écarte sur les points suivants:

1. Le régime des prêts conjoints établi par la loi antérieure disparaît;
2. La Société centrale d'hypothèques et de logement assurera les prêts consentis par les organismes prêteurs;
4. L'amortissement de l'hypothèque pourra être allongé sur une période de 25 ans au lieu de 20 ans.

Quelles seront les conséquences de ces amendements et quels résultats probables attendre de cette législation?

De ce qui précède et ainsi que l'explique d'ailleurs le projet de loi, il découle que la responsabilité du financement de la construction domiciliaire sera à la charge de l'entreprise privée, des institutions financières, des compagnies d'assurances et des institutions bancaires de notre pays, la SCHL se réservant encore le droit de faire des prêts directs là où il sera impossible d'obtenir des prêts par la filière ordinaire.

Pour rendre les perspectives plus attrayantes pour l'entreprise privée, la SCHL assura les prêts effectués par les compagnies prêteuses. Le coût de cette assurance sera à la charge de l'emprunteur, ce qui aura pour effet d'augmenter le montant de l'hypothèque.

Enfin, à première vue, il sera plus facile de se prévaloir des avantages de la loi puisque la mise de fonds initiale sera diminuée du fait que le montant maximum des prêts autorisés est porté à 90 p. 100 de la valeur d'emprunt alors qu'il n'était que de 80 p. 100 antérieurement.

Par ailleurs, il découle que le montant à rembourser sera plus élevé par suite de la diminution de la mise de fonds initiale de la hausse possible du taux de l'intérêt et de l'allongement de la période de remboursement.

LE FINANCEMENT

Nous avons étudié attentivement le témoignage de M. Mansur devant votre comité et nous sommes d'accord avec lui sur plusieurs points. Par exemple, nous admettons ainsi qu'il le disait le 2 février dernier devant ce comité, que "pour maintenir le taux de la construction au rythme de celui de 1953, il faudrait recourir à des prêts directs par la SCHL" (p. 13).

La raison, c'est que les institutions prêteuses ne peuvent pas prêter des fonds qu'elles n'ont pas ou dont elles ne peuvent se départir sans affecter leur solidité ou leur structure financière.

D'autre part, ainsi que l'affirmait encore M. Mansur, en réponse à une question de M. Macdonnell, le 9 février, (p. 105) le problème se résumerait à une question de financement et d'aménagement de terrains.

Si nous sommes d'accord sur ces deux points, nous ne croyons pas que ces deux facteurs: la manque de terrains aménagés et le financement hypothécaire, constituent les seuls facteurs limitatifs d'un plus grand essor de la construction domiciliaire.

Mais la méthode de financement que nous propose le projet de loi sera-t-elle suffisante, sera-t-elle efficace et permettra-t-elle de construire plus de logements à des conditions plus faciles, non pas seulement aux emprunteurs actuels mais à ceux qui sentent le besoin réel d'améliorer leur situation au point de vue logement?

Puisque les sources de financement ordinaires, telles que les compagnies d'assurances et les autres compagnies prêteuses, auront de la difficulté à investir plus de fonds dans la construction domiciliaire durant les prochains mois et les prochaines années, il est clair que l'on compte sur les banques pour sauver la situation.

Les institutions bancaires du Canada seront donc appelées à combler le déficit dans le financement que cause le retrait de la SCHL dans le domaine des prêts conjoints et à combler aussi les besoins qui se feront sentir si les autres institutions prêteuses ont de moins en moins de fonds à investir dans la construction domiciliaire.

Nous ne croyons pas que les banques canadiennes aient beaucoup de fonds disponibles pour investissements hypothécaires dans la construction domiciliaire. Le témoignage de M. Aitkinson, président de l'Association des banquiers canadiens, d'après une dépêche de la Presse Canadienne en date du 20 février, précise qu'il n'y a pas actuellement de fonds inactifs dans les banques.

Mais les banques peuvent prêter plus que les dépôts d'épargne qu'elles possèdent, ainsi que le faisait remarquer le président de la Banque Provinciale du Canada à la 53^e assemblée annuelle des actionnaires tenue à Montréal, le 13 janvier dernier:

Grâce à l'habitude qu'a le public de payer par chèque, les banques peuvent prêter des sommes plusieurs fois supérieures à leur encaisse, et les prêts ainsi consentis font en majeure partie l'objet de nouveaux dépôts parce que les emprunteurs et les fournisseurs ou créanciers sont eux-mêmes des usagers du système du chèque. De sorte que dans notre système monétaire, les dépôts sont en grande partie le résultat des prêts mêmes des banques. Lorsque les banques ont atteint la limite des prêts qu'elles peuvent consentir en égard à leurs réserves monétaires, c'est à la Banque du Canada qu'elles doivent recourir pour obtenir de nouvelles avances monétaires.

L'article 3, paragraphe c) du projet de loi constitue une disposition permettant aux banques de conserver leur liquidité:

Il se lit comme suit:

Tout prêteur agréé peut... déposer en nantissement, auprès de la Société ou d'un prêteur agréé, un prêt assuré en vue de garantir le remboursement de la somme empruntée, et emprunter une somme de la Société ou d'un prêteur agréé sur la garantie d'un prêt assuré.

Si nous comprenons bien ce paragraphe, les prêts hypothécaires assurés en vertu de la loi joueront le même rôle que les obligations du Canada et la SCHL prêtera aux institutions prêteuses contre nantissement des prêts qu'elles auront effectués.

La portée de cet article est d'ailleurs explicitée par l'article 11, paragraphe 1) sous paragraphes a) et b) qui se lisent comme suit:

La Société peut, sur son capital, sur le fonds de réserve établi en vertu de l'article 30 de la Loi sur la Société centrale d'hypothèques et de logement, ou sur les deniers que l'article 22 affecte à cette fin

a) acheter tout droit ou intérêt du détenteur d'un prêt assuré et recevoir une cession de l'hypothèque et autre garantie prise en l'espèce; et

b) consentir des prêts à un prêteur agréé, aux conditions y compris le taux d'intérêt, que la Société détermine, sur la garantie d'une cession de prêts assurés, détenue par le prêteur agréé ou d'une convention de céder des prêts de cette nature.

Mais l'article 22, paragraphe 1) sous-paragraphe c) vient limiter à vingt-cinq millions de dollars les sommes que le Ministre avancera à la Société pour les objets énoncés dans l'article 11.

Cette garantie serait insuffisante et d'effet presque nul si l'on n'amendait pas la Loi sur la Banque du Canada pour faciliter les avances des banques. Il semble que c'est d'ailleurs l'intention du Gouvernement d'après l'intervention de l'honorable Robert Winters: (Cf. *Hansard* du 21 janvier 1954 p. 1385)

La nouvelle loi disait le Ministre, permettra à la Société centrale d'acheter les hypothèques des prêteurs approuvés. En plus, le Gouvernement a annoncé qu'il se propose de modifier la loi sur la Banque du Canada de façon que les valeurs hypothécaires des banques puissent garantir des emprunts de la Banque du Canada, comme c'est le cas présent pour les obligations de l'État.

S'il en est ainsi, il est clair que le gouvernement aura facilité le financement de la construction domiciliaire, mais il n'est pas sûr, que la méthode employée soit la plus efficace et la moins onéreuse.

La question qui se pose, c'est celle de savoir si ces fonds seront accessibles à ceux qui en ont réellement besoin c'est-à-dire à ceux qui sont incapables de se construire dans les conditions actuelles.

Il est évident que même si la disponibilité de fonds hypothécaires est assurée, ces fonds seront par contre, plus onéreux pour les emprunteurs.

A l'heure actuelle, comme le soulignait l'hon. M. Winters, le particulier qui effectue un emprunt conjoint de \$8,600 pour une période de 20 ans doit payer mensuellement la somme de \$57.68 ce qui veut dire une remise totale de \$13,833.20. Par contre, celui qui va emprunter le montant équivalent, garanti par une hypothèque assurée et remboursable sur une période de 25 ans, compte tenu de la prime d'assurance de \$172, ce qui porte le montant de l'emprunt hypothécaire à \$8,772, devra effectuer des versements mensuels de \$54.83

pendant 25 ans si l'intérêt est de 5½ pour cent et de \$56.13 si l'intérêt est de 6 p. 100 soit des remises totales de \$16,449 et de \$16,839, soit près du double de la somme empruntée.

On a fait grand état de la diminution de la mise de fonds initiale consacrée par le projet de loi n° 102. Il n'apparaît pas que les futurs emprunteurs auront de quoi se réjouir grandement.

En effet, comme la garantie du prêt ne portera que sur 90 p. 100 des premiers \$8,000 de la valeur d'emprunt et de 70 p. 100 sur le reste du montant de la valeur d'emprunt, il est clair que la différence devra être versée par l'emprunteur comme mise de fonds initiale.

Ainsi pour une maison dont la valeur d'emprunt sera de \$10,000, la mise de fonds exigée sera de \$1,400 ou 14 p. 100.

En même temps, d'après les exigences de la SCHL, selon laquelle le salaire de l'emprunteur doit être de 23 p. 100 de sa dette, un ouvrier devra gagner \$74 par semaine ou \$3,650 par année pour obtenir un prêt de \$8,772 sur une maison de \$10,000 s'il ne peut faire une mise de fonds plus élevée que \$1,400.

En définitive bien peu d'ouvriers pourront bénéficier de la loi parce que la grande majorité ne remplissent pas les conditions exigées par la loi même si celle-ci réussissait à créer d'abondantes sources de fonds hypothécaires.

C'est pourquoi notre mouvement ne peut manifester que du désappointement parce que ni ses membres, ni les travailleurs en général ne pourront songer à améliorer leurs conditions de logement avec la législation qu'on nous propose.

Depuis le 1^{er} janvier 1945, au 1^{er} avril 1953, d'après la revue "Habitation au Canada", deuxième trimestre 1953, le nombre total des familles au Canada est passé de 2,795,600 à 3,334,400 soit une augmentation de 648,800 familles.

Durant la même période, soit du 1^{er} janvier 1945 au 1^{er} avril 1953, le nombre d'unités de logements construits au Canada fut de 601,294, ce qui laisse un déficit net de 47,506 logements comparativement à la demande réelle.

Ce déficit laisse toujours en plan les besoins accumulés avant 1945 ainsi que les besoins qui ne cessent d'augmenter du fait du vieillissement des constructions existantes et de leur détérioration.

Même en admettant que le déficit de 320,000 logements dont fait mention le rapport Curtiss, comprend et les logements insatisfaisants en 1944 et ceux qui le deviendraient pendant la décade suivante, il reste que ce déficit n'a pas été comblé mais qu'au contraire, il s'est augmenté de 47,506, pour porter le déficit global à près de 400,000 logements.

Alors que les besoins du Canada requièrent la construction de 400,000 logements, les prêts effectués en vertu de la loi nationale sur l'habitation ont été au nombre de 135,437 et ont permis la construction de 181,497 logement du 1^{er} janvier 1945 au 1^{er} avril 1953, d'après la revue "Habitation au Canada", soit moins de 25,000 logements par année.

Si maintenant la SCHL se retire du domaine des prêts conjoints qui portaient déjà une certaine garantie aux institutions prêteuses, pour laisser le champ libre à l'entreprise privée, nous ne croyons pas que celle-ci soit suffisamment apte à satisfaire la demande actuelle.

Et même si d'abondantes sources de fonds hypothécaires sont mises à la disposition des emprunteurs par l'expansion du crédit bancaire, les conditions onéreuses exigées entraveront la satisfaction de la demande réelle de logements car ceux qui ont actuellement besoin d'être mieux logés seront incapables de profiter de la loi nationale.

D'après le projet de loi, la Société centrale approuvera les prêts, les assurera, établira elle-même les normes de construction, fixera, par l'intermédiaire du Gouverneur en Conseil, le taux de l'intérêt et s'engage même à racheter les hypothèques.

Il n'y a qu'une chose que la SCHL ne fera pas, c'est de prêter directement, à des conditions abordables pour ceux qui ont besoin de se mieux loger.

L'article 40 du projet de loi permet sans doute à la SCHL d'effectuer des prêts directs mais "aux mêmes conditions et avec les mêmes restrictions que celles moyennant lesquelles un prêt peut être consenti à cette personne en vertu des dispositions de la partie I de la loi ou de l'article 15."

Le Gouvernement a-t-il l'intention de permettre le réescompte des hypothèques détenues par les banques pour leur permettre de faire face aux demandes de prêts? Si non, il est clair que les banques ne seront pas capables de financer la construction domiciliaire.

Si oui, c'est donc que le gouvernement du Canada, par l'intermédiaire de la Banque du Canada, va lui-même permettre le financement de ce programme de construction. Mais en faisant cela, il va permettre à des organismes privés (les banques) de réaliser des bénéfices avec de l'argent qui, de fait, est la propriété des citoyens du Canada.

La question se poserait autrement si la SCHL, l'organisme qui approuve les prêts, assure les prêts, dicte les normes de construction, était autorisée à faire elle-même ces prêts.

Les hypothèques détenues par la SCHL pourraient servir de garantie à la Banque du Canada, au même titre que les obligations du Canada aux fins d'obtenir l'argent nécessaire au financement de la construction d'un nombre suffisant de logements.

La Société pouvant obtenir les sommes nécessaires de la Banque du Canada à un taux d'intérêt très bas, soit moins de 4 p. 100 pourrait ensuite prêter cet argent sur la construction à un taux inférieur à 5 p. 100 ce qui serait de nature à réduire les versements mensuels exigés des emprunteurs et rendre possible l'accession à la propriété d'un plus grand nombre de Canadiens, ce qui, au point de vue social, est un objectif souhaitable.

Il faut admettre que le problème du logement est un problème à l'échelle nationale causé lui-même par notre politique nationale.

Sous la force des événements, nous avons dû rationner les matériaux, accorder certaines priorités aux dépens de la construction domiciliaire; d'autre part, la politique d'immigration, souhaitable en soi lorsqu'elle est ordonnée, a contribué à rendre plus aiguë la crise du logement chez nous, enfin l'expansion industrielle de notre pays entraîne un déséquilibre sans cesse croissant entre les populations urbaines et rurales et un déplacement de ces dernières vers les villes.

L'entreprise privée est actuellement incapable de régler le problème du logement et il n'apparaît pas que le projet de loi actuel soit de nature à faciliter les choses.

Le gouvernement canadien devrait reconnaître ses responsabilités et autoriser l'organisme qu'il a créé, à entrer de plein pied dans le financement de la construction domiciliaire à un taux d'intérêt le plus bas possible.

De cette façon, notre législation sociale recevrait un complément qui la rendrait l'une des plus enviables.

La Confédération des Travailleurs
Catholiques du Canada

24 février 1954.

Mr. CANNON: Mr. Chairman and gentlemen, I am going to try to translate this brief into English just as I go along reading it. I have not read it before so I beg your indulgence if there are hesitations or slight mistakes.

Mr. MACDONNELL: If so, we will correct you.

(Translation)

Mr. CANNON: Memorandum of the Federation of Catholic Workers in respect to Bill 102. The problem of housing greatly interests the Federation of Catholic Workers in Canada. It has already organized a permanent committee which has been charged with the study of the housing problem and which has also been asked to find means to meet the housing needs of its members.

For instance, the central council of the City of Quebec last year organized a housing cooperative which succeeded in building in the suburbs of the city a one-family house of 7 rooms and two storeys for a total cost of \$6,000.

The experience has been so successful that the credit unions of Quebec are ready to finance the building of similar houses built on the same principles and to loan \$5,500 on each of those houses so that the initial down payment will be only \$500.

The C.T.C.C. understands that it is impossible to adapt the formula used in Quebec to settle the housing problem on a national scale. Therefore it will support any legislation or proposed legislation which would contribute to improving the housing situation of Canadians.

BILL 102

On the 21st January last, the Hon. Robert H. Winters moved the second reading of Bill 102 favouring the construction of new houses, the repair and modernizing of existing houses, as well as the improvement of living and housing conditions.

C.T.C.C. is aware that on both sides the bill was discussed at length in the House, some people seeing in it a way of settling once and for all the housing problem, and others raising doubts as to the results which would be attained by the application of the new act.

The C.T.C.C. remarks that the bill retains, first of all, the major part of the enactments of the National Housing Act, and that it has innovations on the following points: firstly, the system of joint loans established by the old act disappears. Secondly, Central Mortgage and Housing Corporation will insure loans made by authorized lenders. Thirdly, the initial down payment has been reduced to 10 per cent. Fourthly, the amortization of the mortgage may be prolonged to a period of 25 years in place of 20 years.

What are the consequences of these amendments, and what will be the probable results of this legislation?

From what has been said, and as it appears from the bill itself, it follows that the responsibility for the financing of residential housing construction will continue to depend on private enterprise, on financial institutions, on insurance companies, and on the banking institutions in our country; Central Mortgage and Housing Corporation, however, reserves the right to make direct loans where it shall be impossible to obtain a loan in the ordinary way.

In order to make the prospects more attractive for private enterprise, Central Mortgage and Housing Corporation will insure loans made by the lending companies. The cost of this insurance will be charged to the borrower, and this will have the effect of increasing the amount of the mortgage.

Lastly: at first sight it will be easier to make use of the advantages of the law, as the initial payment will be diminished because of the fact that the maximum loan authorized will be 90 per cent of the lending value, while it was only 80 per cent formerly.

On the other hand it follows that the amount to be reimbursed will be higher because of the reduction in the initial payment, a possible increase in the interest rates, and the prolongation of the period of reimbursement.

Financing:

We have carefully studied the evidence given by Mr. Mansur before your committee, and we agree with him on several points. For instance, we admit, as he said on the 2nd February last before the committee that in order to maintain the rate of construction at the rhythm of 1953, it will be necessary to have recourse to direct loans from Central Mortgage and Housing Corporation.

The reason is that lending institutions cannot lend funds that they do not already possess, or that they cannot part with without affecting the solidity of their financial structure. On the other hand, as Mr. Mansur said, in answer to a question asked by Mr. Macdonnell, on February 9th, at page 105:

The problem is mainly one of financing and of land assembly.

If we agree on these two points we do not believe that these two factors, the lack of assembled land and mortgage financing, constitute the only factors that hold back the construction of residential housing.

But will the method of financing that is proposed to us by the bill be sufficient, will it be efficient and shall it permit the construction of more residences at easier conditions not only for the present borrowers but also for those who feel the need of improving their situation from the point of view of lodgings?

And as the ordinary sources of financing, such as insurance companies and other loan companies will have difficulty investing more funds in residential construction during the next few months and the next few years, it is clear that the banks are counted upon to save the situation.

The banking institutions of Canada will therefore be called upon to make up the deficit in financing which will result from the fact that Central Mortgage and Housing Corporation retires from the joint loan field, and to make up also for the requirements which will arise if loaning institutions have less and less funds to invest in residential construction.

We do not believe that Canadian banks have many funds at their disposal for mortgage investments in residential housing.

The evidence of Mr. Atkinson, the Chairman of the Canadian Bankers Association, according to a news item in the Canadian Press dated February 20, mentions the fact that at the present moment there are no unemployed funds in the banks.

However, the banks may loan more than the savings deposits that they possess, as the President of the Provincial Bank of Canada mentioned at the 53rd annual meeting of shareholders, held in Montreal on January 13 last:

Thanks to the habit that people have of paying by cheque, the banks are able to lend sums several times larger than those that they actually have in hand, and the loans thus made are in large measure the object of new deposits because borrowers and the suppliers or creditors themselves use the cheque system. In this way in our monetary system deposits are in large measure the result of loans made by the banks themselves. When the banks have reached the limit of the loans that they can make, having regard to their money reserves, they must have recourse to the Bank of Canada to obtain advances of new money.

Paragraph (d) of article 3 of Bill 102, contains an enactment which permits the bank to conserve their liquid position. It reads as follows: "Any approved lender may . . . (d) pledge with the Corporation or an approved lender an insured loan to secure the repayment of money borrowed, and borrow money from the Corporation or an approved lender on the security of an insured loan;"

Mr. CANNON: I have read this paragraph from the bill, rather than translate it, and I notice that while the brief refers to paragraph (c) it should actually refer to paragraph (d).

If we understand this paragraph, insured mortgage loans under the Act will play the same part as Dominion of Canada bonds, and the Central Mortgage and Housing Corporation will lend to loaning institutions on the security of loans that shall have been made.

The meaning of this article is moreover made clearer by paragraph 1 of article 11, subparagraphs (a) and (b) which read as follows:

11. (1) The Corporation may out of its capital, out of the reserve fund established under section 30 of the Centrage Mortgage and Housing Corporation Act, or out of moneys appropriated by section 22 for the purpose

(a) purchase all right or interest of the holder of an insured loan and take an assignment of the mortgage and other security taken in respect thereof; and

(b) make loans to an approved lender on such terms and conditions, including the rate of interest, as the Corporation may determine upon the security of an assignment of or an agreement to assign insured loans held by the approved lender.

But, article 22, paragraph 1, subparagraph (c) limits to \$25 million the sums that the minister will advance to the Corporation for the purposes mentioned in article 11.

This guarantee would be insufficient and practically useless if the Bank of Canada Act were not amended to facilitate advances to banks. It seems that that is the intention of the government, according to the statement of the Hon. Robert Winters (see *Hansard*, 21st January, 1954, page 1385).

The new Act, "said the minister," shall permit Centrage Mortgage and Housing to purchase mortgages from approved lenders. Moreover, the government has announced that it intends to modify the Bank of Canada Act in order that the mortgage securities held by the banks may guarantee their borrowings from the Bank of Canada, as is now done with Dominion of Canada bonds.

If this is so, it is clear that the government shall have facilitated the financing of residential buildings, but it is not certain that the method employed is the most efficacious, and the least onerous.

The question that arises is whether these funds will be accessible to those who really need them; that is to say, those who are unable to build under present conditions.

It is evident that even if the availability of mortgage funds is assured, these funds shall, on the other hand, be more onerous for the borrowers. At the present time, as the Hon. Mr. Winters said, a private individual who makes a joint loan of \$8,600 for a period of 20 years has to make monthly payments in the amount of \$57.68, which means a total payment of \$13,833.20. On the other hand, one who shall borrow an equal amount guaranteed by an insured mortgage and reimbursable over a period of 25 years, taking into account the insurance premium of \$172, which will bring the total amount up to \$8,772, will have to make monthly payments of \$54.83 during the 25 years, if the interest is 5½ per cent, and \$56.13 if the interest is 6 per cent, that is to say, total payments of \$16,449 and \$16,839, or almost double the amount borrowed.

A great deal has been made of the decrease in the initial payment provided for by Bill 102. It does not appear that future borrowers will have cause for very much joy.

Indeed, as the guarantee of the loan will only bear on 90 per cent of the first \$8,000 of lending value and on 70 per cent of the rest of the lending value, it is clear that the difference will have to be made up by the borrower as part of his initial payment.

Thus, for a house, the lending value of which shall be \$10,000 the initial payment required will be \$1,400 or 14 per cent.

At the same time, to conform with the requirements of Central Mortgage and Housing according to which the salary of a borrower must be 23 per cent of the debt, a workman must earn \$74 per week or \$3,650 per year to obtain a loan of \$8,772 on a house costing \$10,000, if he cannot make a down payment of more than \$1,400. In short, very few workmen will benefit by the Act because the great majority of them do not fulfil the conditions required by the Act, even if the Act succeeded in creating abundant supplies of mortgage funds.

That is why our organization cannot do otherwise than say it is disappointed because neither its members nor workers in general will be able to think of improving their housing conditions with the legislation that is proposed. From the first of January 1945 to the first of April 1953, according to the review of "Housing in Canada" for the second three-month period of 1953, the total number of families in Canada has passed from 2,795,600 to 3,344,400, or an increase of 648,800 families.

During the same period, from the first of January 1945 to the first of April 1953 the number of housing units built in Canada was 601,294, which leaves a net deficit of 47,506 units, compared to the effective demand.

This deficit does not take care of the requirements accumulated before 1945, nor does it take care of the requirements that increase continually because of the fact that existing buildings become older and reach a state of disrepair.

Even admitting that the deficit of 320,000 housing units, which is the figure mentioned in the Curtis Report, comprises both lodgings that were unsatisfactory in 1944 and those which might become unsatisfactory during the following 10 years, the fact remains that this deficit has not been made up but that on the contrary it has increased by 47,506, to bring the total deficit up to nearly 400,000 housing units.

While the housing needs of Canada require the construction of 400,000 housing units, loans effected under the National Housing Act numbered 135,437 and permitted the construction of 181,497 housing units between the first of January 1945 and the first of April 1953, according to the review "Housing in Canada", or less than 25,000 housing units per year.

Now, if the Central Mortgage and Housing Corporation withdraws from the field of joint loans which already gave a certain guarantee to the lending institutions, in order to leave the field free for private enterprise, we do not believe that the latter is sufficiently well equipped to satisfy the demand at this time. Even if abundant sources of mortgage funds are placed at the disposal of borrowers by the expansion of banking credit, the onerous conditions required will prevent the satisfaction of the effective demand for housing because those who at the present time require better housing will be unable to profit by the National Act.

According to the bill, Central Mortgage and Housing shall approve the loans, shall insure them, shall establish itself the construction standards and shall fix, through the Governor in Council, the rate of interest and even pledge itself, to repurchase the mortgages. There is only one thing Central Mortgage and Housing will not do and that is to loan directly on conditions that are satisfactory for those who require better lodgings.

Section 40 of the bill no doubt permits Central Mortgage and Housing to make direct loans, but "on the same terms and conditions and subject to the same limitations as those upon which a loan may be made to such person under the provisions of part 1 of the Act, or section 15".

Does the government intend to permit the rediscount of mortgages held by the banks to permit them to meet the demand for loans? If not, it is clear that the banks will not be able to finance residential construction.

If the answer is "yes", this means that the government of Canada, through the intermediary of the Bank of Canada, shall itself finance this program of construction? But in doing this it shall permit private organizations, (the banks), to make profits with the money that is in fact the property of the citizens of Canada.

The question would be different if Central Mortgage and Housing Corporation, the organization that approves the loans, insures the loans and establishes the standards of construction, was authorized to make those loans itself.

Mortgages held by Central Mortgage and Housing could serve as a guarantee to the Bank of Canada in the same way as Dominion of Canada bonds in order to obtain the funds required for financing the construction of a sufficient number of lodgings.

As the corporation can obtain the necessary funds from the Bank of Canada at a low rate of interest, that is to say, less than 4 per cent, it could then loan such money for building at a rate lower than 5 per cent. This would have the effect of reducing the monthly payments required from borrowers, and would permit a greater number of Canadians to have access to home ownership, and this, from the social point of view is a very desirable objective.

It must be admitted that the housing problem is a problem on the national scale, caused itself by our national policy.

Under the pressure of events we have been obliged to ration materials and to grant certain priorities at the expense of residential construction; on the other hand our immigration policy, which is a good thing in itself when it is well organized, has contributed to render more acute the housing crisis in our country.

Lastly, the industrial expansion of our country brings forth a lack of equilibrium which increases continually between urban and rural populations and a removal of the latter toward the towns.

At the present moment private enterprise is unable to solve the problem of housing and it does not seem that this bill will do much to improve matters.

The Canadian government should recognize its responsibility and authorize the organization which it has created to enter fully into the field of financing residential construction at a rate of interest as low as possible.

In this way, our social legislation would receive an addition which would place it in a very enviable position.

The CHAIRMAN: Gentlemen you have indicated by your applause how thankful we are to the very worthy member of our committee, Mr. Charles Cannon, for translating the document to us on such short notice.

Our witness will be able to answer questions that are asked of him. In order to help out the reporter and until a French reporter arrives, I suggest you ask your questions in English. The witness understand English sufficiently to be able to answer in that language, but if he finds any difficulty, Mr. Cannon will help him. Is that satisfactory?

Mr. Fernand Bourret, The Canadian and Catholic Federation of Labour, called:

The WITNESS: Yes.

The CHAIRMAN: Mr. Dumas.

Mr. DUMAS: What are the names of the witnesses?

The CHAIRMAN: Mr. Fernand Bourret and Mr. Roger McGinnis.

By Mr. McIlraith:

Q. While we are waiting for a French reporter, perhaps I might fill in the time with a few questions. In the first paragraph on page 3 of the brief, do I understand you to say that you do not believe that the difficulties of land assembly and financing, or the lack of mortgage money are the only limiting factors in respect of housing? That is my understanding of the paragraph.—A. Yes.

Q. What are the other limiting factors?—A. There is another one, the down payment.

Q. Yes.—A. If you have a down payment of \$2,000 or more, it is a factor that limits construction.

Q. Yes, and are there any other limiting factors that you have in mind?—A. Another factor is the 23 per cent of earning capacity required by Central Mortgage and Housing. It is a factor for a working man or for anyone who wants to borrow money, because he has to have an earning power or an income, it may be, as high as \$4,000.

Q. I understand that point in your brief, yes. What I was getting at is this: Do you consider the cost of construction a limiting factor? I mean the high cost of construction?—A. In fact by "cost of construction" you mean the labour cost?

Q. Labour and materials, yes.—A. They are limiting factors, that is true. But we do not think that the cost of labour is higher than other costs.

Q. Do you see any method of reducing those costs through improved techniques?—A. Maybe it is possible to improve techniques in construction, but you must realize that the trades in construction are conservative. You know, they do not modernize their methods as fast as other trades.

Q. Now, to turn to another point: I take it that in the first part of your brief you are speaking about some work which was done by your own federation in the way of cooperative building. Do you think there is much more to be done in that field that will help in providing more houses?—A. The cooperatives help to build houses at lower cost, because cooperatives can buy their materials in bulk and thereby reduce the cost of the houses they are building. On the other hand a working man has to borrow money to build his house, and he cannot buy materials at such low rates.

Q. I think that the cooperative building of houses is a good thing and that if we help the extension of cooperative building, we will help to solve the housing problem. Do you agree that it would help?—A. Yes.

Q. In the fourth paragraph of the first part of your brief you say that the formula used in Quebec cannot be applied on a national scale. I do not quite understand that point.

Mr. CANNON: The witness said that the formula which was used in Quebec can be used in other places but we cannot say that it could be used everywhere.

The first point, is the purchase of land. The cooperative that he mentioned in Quebec City was able to acquire a large expanse of land under very favourable conditions thereby reducing the cost of the land.

The second point, is that as cooperatives do not have very much ready cash at their disposal, it is difficult for them to finance the initial outlay that has to

be made to build a great number of houses at the same time. If they are only building one or two houses at the same time it is comparatively easy, but if there are a great number of houses to be built at the same time, they cannot procure the funds to make the down payments before borrowing the money from Central Mortgage and Housing.

Mr. McILRAITH: Would you ask him if they used any of their union funds for that purpose?

(For English translation of the evidence which follows, see Appendix to this day's Evidence).

M. BOURRET: Le Conseil central de la ville de Québec a commencé lui-même la construction de ces maisons-là et le financement temporaire a été avancé par les unions, les syndicats, le Conseil central de Québec.

M. Cannon:

D. Le Conseil central des syndicats catholiques?—R. Oui, de la ville de Québec.

Mr. CANNON: Yes, he says that the original financing of these cooperative housing projects was done by the Central Council of the National Syndicates which are the Quebec unions—they supplied the money.

Mr. McILRAITH: In the particular cooperative of which you are speaking, will the houses, when they are finished, be owned by the individual members of the cooperative?

The WITNESS: Yes. Dans ce cas-là, les maisons sont possédées par les individus, par les travailleurs.

Mr. CANNON: In these cases, the houses are owned by the individual members of the cooperative.

One question I might ask that might be of interest to the committee is this:

M. Cannon:

D. Est-ce que les membres individuels des coopératives,—I will translate this question,—fournissent leur labeur; est-ce qu'ils travaillent?—R. Ils ne travaillent pas, ils ne fournissent pas de travail. Le seul travail qu'ils ont à faire, c'est de compléter la maison, car la maison est livrée au propriétaire mais elle n'est pas peinte, et ils doivent la peindre.

Mr. CANNON: I asked him if the members of the cooperative supplied labour in the construction of these houses and he says "no" except for the interior painting. When the houses are delivered to the members of the cooperative they are not painted inside and they are supposed to do that.

M. Dumas:

D. Monsieur le président, vous pourriez peut-être nous donner des renseignements additionnels au sujet des 2^e et 3^e paragraphes de son bref, où il est dit que vous avez construit plusieurs maisons dans la banlieue de Québec. Monsieur Bourret, est-ce que ce sont des maisons modernes?—R. De ce genre-là.

D. De ce genre-là?—R. Il y en a actuellement 5 ou 6 de construites. De plus, la construction n'a débuté qu'à la fin de l'été dernier, et l'on ne tentait qu'une expérience; alors, on n'a pas pu procéder rapidement. Je vais vous expliquer, si vous le voulez, la façon dont on a procédé. Nous avons tout d'abord construit une maison, et puis, nous avons invité les sociétés prêteuses et les Caisses populaires à venir la visiter. Nous avons dit: combien prêtez-vous sur ce genre de maison? Ils ont répondu: On va prêter \$5,500; et on a dit: oui. Alors, on a enfin marché avec cela.

D. Maintenant, quel est le taux d'intérêt chargé par les Caisses populaires? —R. Je ne sait pas, mais je crois que c'est 5 $\frac{3}{4}$ ou 6 p. 100.

D. Mais, est-ce qu'il y a un taux défini?—R. Je ne suis pas membre de la coopérative et je ne peux pas vous le dire, mais je crois que c'est 5 $\frac{3}{4}$ ou 6 p. 100, et je crois que le gouvernement fait une ristourne.

D. Quel est le montant de la ristourne?—R. 3 p. 100.

D. Maintenant, vous avez l'intention d'en construire plusieurs maisons semblables à celles-là?—R. A Québec, on va poursuivre la construction dans ce sens-là.

D. Si je comprends bien, les Caisses populaires sont prêtes à avancer l'argent pour en construire une vingtaine?—R. Seulement, les Caisses populaires n'ont pas beaucoup d'argent disponible. L'an dernier, pour les coopératives, elles n'avaient pas un million de disponible.

D. Maintenant, vous disiez tout à l'heure, Monsieur Bourret, que votre union, le Conseil central catholique de la ville de Québec, avait avancé de l'argent pour bâtir et pour les constructions où le travail était avancé; est-ce votre intention de continuer à avancer de l'argent sur des projets semblables? —R. Voici, quand une maison est construite, elle est ensuite hypothéquée; et nous avons aidé à en diminuer la rareté.

D. Je crois que vous devez être félicités pour cela, et cela m'amène à vous poser une question. Nous, du district minier du Nord-Ouest de Québec et du Nord de l'Ontario, nous avons eu des grèves, tout dernièrement, lesquelles ont coûté énormément cher aux unions intéressées; je me demande si ces unions, au lieu d'engloutir de l'argent pour les grèves de ce genre, ne devraient pas plutôt effectuer des prêts aux membres de leurs unions, puisque l'on dit que l'habitation est tellement importante pour l'ouvrier, que cela l'encourage à rester dans la région et à continuer son travail, c'est-à-dire que son moral est meilleur. Vous n'êtes pas obligé de répondre à ma question, mais je voudrais bien avoir votre opinion, Monsieur Bourret; désirez-vous répondre à ma question?—R. Vous me posez une question qui me place dans une situation un peu difficile. Seulement, je vais tâcher d'y répondre.

D. Voici, pour vous mettre à l'aise. Vous avez fait des prêts, à Québec, en avançant de l'argent à vos membres et ainsi vous leur avez permis de posséder leur maison. Si vous l'avez fait, c'est parce que c'est bien et je suis certain que cela pourrait se faire ailleurs, au besoin?

M. BOURRET: Voici, il n'est pas dit que cela va se faire à Québec seulement; des expériences semblables peuvent être tentées ailleurs. Encore, il faut que certaines conditions soient remplies comme, par exemple, l'achat de terrains. Ils ont des terres obtenues à bas prix, tout cela... alors... Ensuite, dans le cas de la construction à Québec, il y a aussi un point que je voudrais signaler, et sur lequel on n'a pas posé de question: c'est que les normes de construction ne sont pas les mêmes que celles qui sont exigées par la Société centrale d'hypothèques et de logement. Les maisons sont très confortables, même spacieuses, mais on n'a pas suivi les normes de construction de la Société centrale d'hypothèques et de logement qui, dans certains cas, sont trop élevées. C'est un autre facteur qui vient probablement limiter la construction, surtout dans la province de Québec, pour les gens qui veulent devenir propriétaires.

M. DUMAS: Et surtout...

M. GAGNON: Il serait bon que ce que M. Bourret vient de dire soit traduit.

Mr. CANNON: He says that another limiting factor is that the building standards as required by Central Mortgage and Housing are too difficult to comply with and the houses like the ones he mentioned in his brief that they build in Quebec are comfortable and adequate houses, but do not conform to the standards of Central Mortgage and Housing. They have lower standards.

M. Dumas:

D. A la page 7 de votre mémoire, votre argumentation indique que le taux d'intérêt est trop élevé, $5\frac{1}{2}$, $5\frac{3}{4}$ ou 6 p. 100? Votre argumentation est fondée sur le coût en argent, n'est-ce pas?—R. C'est ça, monsieur.

D. Alors, il faudrait que nos gens soient capables d'emprunter à meilleur taux d'intérêt?—R. C'est ça notre demande, c'est notre point de vue.

D. Tout de même, pour les maisons que vous construisez à Québec, l'argent que vous empruntez, qu'il soit au taux de $5\frac{3}{4}$ p. 100 ou 6 p. 100,—vous n'en êtes pas absolument certain,—seulement, la remise mensuelle de l'emprunteur est moins élevée, parce qu'il bénéficie d'une ristourne de 3 p. 100 sur l'intérêt qu'il doit acquitter, c'est-à-dire qu'il n'a que $2\frac{1}{2}$ p. 100 ou 3 p. 100 à payer.

M. Cannon:

D. N'est-il pas vrai que la ristourne de 3 p. 100 que vous venez de mentionner, laquelle est payée par le gouvernement provincial, on refuse de la payer à ceux qui empruntent de la Société central d'hypothèque et de logement?—R. Sur les prêts directs, on ne la paie pas.

D. Si le gouvernement provincial ne faisait pas cette distinction-là, il aiderait évidemment à solutionner le problème du logement?

M. GAGNON: Il faut ajouter qu'il y a une loi spéciale...

M. CANNON: Laissez répondre le témoin.

M. BOURRET: Il est certain que si le gouvernement provincial payait la ristourne...

Mr. BOUCHER: I believe that these questions and answers should be translated as they come out.

The CHAIRMAN: You will have a translation of the evidence.

M. Dumas:

D. Sous l'empire du projet de loi n° 102, si le bill était adopté par le Parlement et si les banques prêtaient, est-ce que les emprunteurs pourraient bénéficier de la ristourne d'intérêt, sous l'empire de la loi du Québec?—R. Je ne le sais pas. C'est le gouvernement provincial qui décidera si les banques seront reconnues comme institutions prêteuses, au même titre que les caisses populaires. Naturellement, si l'on pouvait bénéficier de cette ristourne-là pour ce qui a trait aux prêts que les banques consentiraient eh! bien, cela constituerait un avantage appréciable, pourvu que les banques aient des fonds en quantité suffisante pour répondre à la demande.

D. Ce serait même plus avantageux que la suggestion que vous faites, soit que la Société centrale prête directement?—R. Oui, ce serait plus avantageux, certainement. Il faut se rendre compte que ce sont des chiffres, et cela ne ment pas.

M. ROBICHAUD: Pour faire suite à la dernière question, celle que nous venons d'étudier. Cette ristourne est-elle remise directement à l'emprunteur, ou est-elle remise à la Coopérative ou à la caisse populaire? Le gouvernement provincial fait-il remise directement à celui qui fait l'emprunt?

M. BOURRET: Il remet à l'emprunteur, je crois. C'est à l'emprunteur qu'il remet. L'emprunteur paie son taux d'intérêt à la compagnie prêteuse, disons $5\frac{3}{4}$ p. 100, et, chaque mois, il reçoit la ristourne.

M. Robichaud:

D. Est-ce qu'il la reçoit directement ou si c'est la Coopérative qui la reçoit?—R. La Coopérative n'a plus aucun lien avec la maison quand elle est terminée.

D. Vous admettez que le gouvernement de la province de Québec remet une ristourne directement à celui qui fait l'emprunt?—R. A celui qui...

D. Qui prête?—R. Oui... La ristourne, enfin, est remise à celui qui emprunte.

M. CANNON: Je pense que le gouvernement provincial paie directement 3 p. 100 au prêteur.

M. ROBICHAUD: Le prêteur la remet...

M. CANNON: Le crédit en est donné à l'emprunteur.

M. BOURRET: C'est l'emprunteur qui en bénéficie.

M. ROBICHAUD: Au dernier paragraphe de la page 6, vous mentionnez: "D'après le projet de loi, la Société centrale approuvera les prêts, établira elle-même les normes de construction". Est-ce que vous essayez de laisser entendre que ces normes sont un peu trop sévères ou trop élevées?

M. BOURRET: Bien, les normes de construction de la Société centrale ne plaisent pas beaucoup; enfin, on y voit certaines objections dans la province de Québec. Enfin, je parle pour la province de Québec, c'est qu'on a certaines objections à formuler contre les normes de la Société.

M. Cannon:

D. Voulez-vous élaborer un peu sur ce point?—R. Par exemple, la Société centrale exige qu'on ait un grand living-room, si vous voulez; dans un nombre limité de pieds, on en prend un nombre appréciable pour le "living-room", ce qui laisse seulement un petit espace pour la cuisine. Les plans de la Société sont faits de cette façon-là. Dans la province de Québec, le "living-room", surtout chez l'ouvrier, cela n'existe pas; ce qu'il aime, c'est un salon, en somme une pièce fermée qu'on ouvre lorsqu'il y a de la visite. Alors, de cette façon-là, les cuisines et les salons se trouvent réduits à des dimensions trop petites, ce qui ne plaît pas aux gens de chez nous.

D. Maintenant, est-ce que réellement les ouvriers, ou ceux qui ont voulu se construire ont fait appel à la Société centrale d'hypothèques et de logement, leur demandant de changer les plans? Est-ce qu'ils n'ont pas eu la liberté d'offrir des plans alternatifs, par exemple?—R. Je ne le sais pas.

D. Est-ce que, réellement, les plans soumis par la Société centrale ne le sont pas seulement en vue de donner une idée, une espèce de directive?—R. Oui... je ne saurais vous dire. Je sais que certaines gens ont préparé des plans, lesquels ont été retournés par la Société centrale, disant qu'ils ne répondaient pas aux normes exigées, au point de vue de la disposition des pièces, de la grandeur des pièces.

D. Maintenant, une autre question, au point de vue du coût de la maison, par exemple, ou des maisons qui ont été construites au coût de \$6,000, est-ce que vous avez des renseignements que vous pouvez nous fournir, nous expliquer. Par exemple, qu'est-ce que la Société centrale exige qui aurait pu augmenter le coût d'une telle maison, est-ce seulement la division de la maison?—R. La Société n'a pas prêté.

D. Que fallait-il pour se rendre aux exigences de la Société centrale d'hypothèques?—R. Je ne sais pas, je ne saurais vous dire. Je ne pourrais pas vous répondre.

Mr. ROBICHAUD: These houses were built at a cost of \$6,000. Wouldn't it be very interesting to know whether they met the requirements of Central Mortgage? At first it was intimated it may have been a provision as to the size of the living room. I do not think it would have an effect on the cost of the house. There seem to have been other factors which were much more important, to bring the cost down to \$6,000.

M. BOURRET: Bien, monsieur, si vous êtes intéressé à les connaître, on pourra vous les faire parvenir dans un bref délai avec les plans de la maison, les divisions, et les matériaux employés.

M. ROBICHAUD: That will be very interesting.

M. Robichaud:

D. A la page 7, vous dites, dans l'avant-dernier paragraphe: "Il faut admettre que le problème du logement est un problème à l'échelle nationale causé lui-même par notre politique nationale".

Maintenant, n'êtes-vous pas d'avis que ce n'est pas la politique nationale mais plutôt la politique mondiale qui est la cause de la situation présente? Est-ce que ce n'est pas la conséquence de la politique mondiale plutôt que celle du Canada lui-même?—R. Sans doute, que tout découle, à ce point de vue, de la politique mondiale. Il reste que les décisions prises l'ont été par les dirigeants du Canada. La crise du logement existe dans tous les pays du monde. Il faudrait alors créer une Société centrale sur une échelle mondiale.

D. Ce à quoi je voulais en venir, ce n'est pas uniquement la politique nationale du Canada qui est responsable de la situation dans laquelle nous sommes aujourd'hui à propos de logement?—R. Il faut admettre que ce n'est pas notre politique nationale car, en fin de compte, elle est influencée par la politique internationale et par le rationnement des matériaux. Tout cela c'est dû un peu à la politique nationale.

The CHAIRMAN: Mr. Cardin. It is Mr. Cardin's turn, then Mr. Macdonnell, then Mr. Crestohl.

M. Cardin:

D. Je voudrais savoir si les maisons, dont vous parliez tantôt, ont été construites avec un système de chauffage? Est-ce que le système de chauffage est inclus?—R. Non, le système de chauffage n'est pas installé.

D. C'est probablement pour cela. Maintenant, je ne veux pas aller bien loin, mais je voudrais comprendre ce que vous dites à la page 6: "C'est pourquoi notre mouvement ne peut manifester que du désappointement parce que ni ses membres, ni les travailleurs en général ne pourront songer à améliorer leurs conditions de logement avec la législation qu'on nous propose." Maintenant, est-ce que votre fédération a des suggestions concrètes à offrir en regard du problème actuel en plus de tout ce que touche la législation actuelle?—R. On peut dire que la plupart des choses que nous demandons y sont déjà traitées jusqu'à un certain point, seulement nous pensons que la législation ne va pas assez loin dans ces points-là.

D. Comme question de fait, les suggestions que vous faites sont déjà incorporées dans le bill.—R. Bien, elles sont incorporées dans le bill, mais elles ne le sont pas toutes, parce que nous pensons et nous croyons, d'après tout ce qui a été dit ici et un peu partout par les représentants des banques et par ceux qui sont venus ici, et tout cela, que les capitaux disponibles seront sans doutes insuffisants. Alors, nous nous demandons pourquoi la Société centrale ne serait pas autorisée à prêter directement et à un taux moindre que celui qui est en vigueur actuellement.

D. Si je comprends bien l'article 40 de la législation, est-ce qu'il ne permet pas à la Société centrale d'hypothèques de prêter directement, ce qui me semble être satisfaisant?—R. Oui, dans certains cas la Société centrale consent des prêts directs là où c'est impossible d'en obtenir, c'est-à-dire dans certaines régions. Les compagnies d'assurance, ou d'autres institutions prêteuses ne prêtent pas, ou elles ne veulent pas prêter, alors la Société centrale fait des prêts directs. Est-ce à dire, maintenant, que la Société centrale, d'après le bill actuel, va prêter d'ordinaire à tout ceux qui se verront refuser

un prêt par les institutions prêteuses; je ne le crois pas. Et puis, à part de cela il y a les conditions qui sont exigées, le taux d'intérêt exigé; dans ce cas-là, eh! bien, nous le trouvons trop élevé.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: I understand that Mr. Robichaud has really covered what I wanted to cover. I understand he has been talking about lower figures for construction which are in this brief. I think this is a very important matter. With regard to the standards of construction to which the Central Mortgage is tied in—I am not at all sure whether it is by their own doing, but they are tied in—I have never been sure whether they are standards set up by theoretical people. In other words, is it the ideal house for the ideal family, instead of a workaday house for workaday people? I bought an old house and could have spent a lot of money on it, but we made a few minor alterations and I am quite sure it did not conform to any ideal standards, but we live in it quite happily.

The CHAIRMAN: You remember Mr. Bengough's evidence yesterday, in which he said that those were minimum standards.

Mr. MACDONNELL: I remember he did say that, and I know it is his opinion, but I am stubborn and I am still not satisfied. I still have my own opinion. I gathered—and I am open to correction, Mr. Chairman—that Mr. Robichaud did not get a very detailed explanation of how this house was built for \$6,000.

Mr. ROBICHAUD: They said they would send the details on that.

Mr. MACDONNELL: I did not understand that.

The CHAIRMAN: Mr. Crestohl.

M. Cresthol:

D. Monsieur Bourret, vous avez dit que vous avez fait des expériences avec succès; voulez-vous me dire quel est le taux d'intérêt demandé par les Caisses populaires à Québec?—R. Je ne saurais vous dire, mais je crois que c'est 5½, je ne peux pas vous le dire car je ne demeure pas à Québec.

D. Mais, vous avez déclaré que les Caisses populaires, à Québec, sont prêtes à construire ces maisons à \$6,000 et elles sont prêtes à prêter \$5,500, n'est-ce pas. Pouvez-vous dire quel est le taux d'intérêt que les Caisses populaires demandent pour les prêts de \$5,500? Il faut nous baser sur un taux d'intérêt, n'est-ce pas?—R. Je n'ai pas très bien compris la question.

M. Cannon:

D. Quel est le taux d'intérêt qu'elles chargent; vous avez dit que le taux était de 5½ ou 6 p. 100.

M. Cresthol:

D. C'est cela que l'on vous demandait, mais pourquoi dites-vous que le taux d'intérêt demandé par la Central Housing est trop haut, si vous pouvez bâtir ces bâtisses à Québec à un taux de 5½; alors, pourquoi est-il trop haut quand vous prenez l'argent de la Central Housing, et qu'il n'est pas trop haut à Québec?—R. Le taux est le même, mais pour l'emprunteur il est moins élevé parce qu'il bénéficie d'une ristourne du gouvernement provincial, laquelle est de 3 p. 100 ce qui abaisse l'intérêt.

D. Est-ce qu'il ne reçoit pas la même ristourne s'il fait un emprunt d'une banque?—R. La loi provinciale ne le prévoit pas.

D. Vous pouvez nous dire aussi, peut-être, si les Caisses populaires, à Québec, ont suffisamment d'argent pour aider à bâtir des maisons autour de Québec. Quelles sont leurs ressources, par exemple?—R. Je ne pourrais

pas répondre au nom des Caisses populaires. Seulement, je sais que, tout d'abord, d'après une loi provinciale, elles doivent maintenir une réserve, je crois, de 50 p. 100 d'argent liquide. Alors, tout de suite, cela limite leur facilité de prêter. Ensuite, elles doivent surtout prêter à leurs associés, à ceux qui sont membres des Caisses. C'est un autre facteur qui tend encore à limiter les prêts. Ce que les Caisses peuvent placer dans le domaine de l'habitation familiale, cela je ne peux pas l'affirmer, parce que je n'ai pas les chiffres en main. Je sais que les Caisses populaires, l'an passé, ont eu de la difficulté à prêter 1 million.

D. Vous avez fait une bonne impression quand vous nous avez laissé entendre qu'il était possible de bâtir, à Québec, une maison pour \$6,000. C'était une déclaration très forte. Mais, nous voulons savoir maintenant s'il est encore possible de faire bâtir de ces maisons à Québec, s'ils ont là-bas l'argent disponible. Ont-ils l'argent?—R. Oui, ils ont l'argent pour en bâtir un nombre limité, certainement.

D. Avez-vous lu par exemple, le témoignage du père Marrocco? Avez-vous lu tout le témoignage qu'il a rendu sur la question des coopératives?—R. Oui.

D. L'avez-vous lu?—R. Oui.

D. Voulez-vous nous dire de quelle manière votre proposition concorde avec celle du père Marrocco. Y aurait-il une différence?—R. Je pense que le projet est différent.

Mr. ROBICHAUD: I think that in this case, most of the houses built under the plan of Father Marrocco for the group were owned by the group.

Mr. McILRAITH: No.

The CHAIRMAN: He may not appreciate the difference. Ask him what he does and we will compare it with what is done by others.—R. (*suite*) Je n'ai pas le témoignage du père Marrocco sous la main; si je l'avais, je pourrais le comparer. Mais, je ne l'ai pas et je ne peux pas préciser si réellement il est différent.

D. Votre association est une espèce de coopérative?

M. BOURRET: Pardon?

M. Crestohl:

D. Votre association, n'est-ce pas, est une espèce de coopérative?—R. Oui, c'est une coopérative, seulement elle diffère des autres coopératives qui ont construit dans la province de Québec.

The CHAIRMAN: Very well, Mr. Gagnon.

M. Gagnon:

D. Les prêts que les Caisses ont effectués pour les maisons bâties par cette coopérative, à Québec, étaient-ils garantis par le gouvernement provincial?—R. S'ils étaient garantis par le gouvernement provincial?

D. Oui. Les prêts des Caisses populaires.—R. Le gouvernement provincial ne garantit pas les prêts dans la province de Québec.

D. Nous avons, dans la province de Québec, la loi sur l'habitation, qui garantit les prêts aux Caisses populaires?

In Quebec we have a law entitled "An Act to Improve Housing Conditions." A section of that law reads as follows:

3. Subject to paragraph 'b' of section 2, the credit unions and loan societies are authorized to lend up to 100 per cent of the cost of any new dwelling; however, when the cost exceeds the real value of the building, as determined by the credit union or the society which makes the loan, the latter must be reduced to the level of such value.

M. CANNON: Non, monsieur, cela ne veut pas dire cela. Cela veut dire uniquement qu'elles sont autorisées à prêter de l'argent. Cela ne veut pas dire que le gouvernement provincial garantit l'argent, mais qu'elles sont autorisées à prêter. Où voyez-vous le mot "garantit"?

M. Gagnon:

D. Le gouvernement ne les garantirait pas?—R. Non, rien de cela.

D. La loi provinciale sur l'habitation est-elle plus favorable que la loi fédérale, plus avantageuse pour les gens de la province de Québec?—R. Je ne suis pas en mesure de répondre à cela.

Mr. CANNON: He asks if the provincial law on housing is more favourable than the federal law.

The CHAIRMAN: I wonder if the witness is in a position to give an answer to such a question. I do not consider he is an expert on that subject. You would not want my opinion, would you?

Mr. GAGNON: That is all, thank you.

The CHAIRMAN: Mr. Breton.

M. Breton:

D. Nous n'avons pas parlé beaucoup du coût de la construction. Ne vous vient-il pas à l'esprit que la principale objection à tout cela, c'est le coût élevé de la construction?—R. Sans doute, le coût a augmenté tout comme le coût de tous les produits. Le coût de la main-d'œuvre, dans la construction, a augmenté tout comme dans les autres entreprises. Cela, nous l'admettons. Seulement, d'après les données statistiques, ce que je n'ai pas en main dans le moment, je crois que le coût de la construction, au point de vue main-d'œuvre, n'a pas augmenté proportionnellement au coût d'entreprise industrielle.

D. Est-ce que le syndicat catholique ne pourrait pas étudier ou contribuer à améliorer la législation fédérale? Sst-ce qu'il ne pourrait pas suggérer quelque plan de construction ouvrière et le soumettre au comité afin qu'il puisse être accepté par la Société centrale d'hypothèques et de logement comme norme de construction?—R. Un plan relatif aux normes de construction; voilà une question qui peut être étudiée chez nous, mais je ne peux pas vous dire si on va vous en soumettre un.

D. Je crois que le syndicat catholique pourrait être très utile à la Société centrale d'hypothèques et de logement et au gouvernement fédéral en faisant toute suggestion dans ce sens-là. Ne pourriez-vous pas également, en soumettant ce plan, établir le coût de ces constructions afin qu'il puisse servir comme tableau de comparaison pour ceux qui veulent construire des logements ouvriers dans le Québec?—R. Voici, nous allons vous faire parvenir les plans des maisons construites à Québec. Cela vous donnera une idée de ces plans. Je dois vous dire que tout ce travail-là a été fait sur la base du travail salarié, pour ces constructions, à Québec.

D. Est-ce que l'on a construit selon un plan varié ou selon un plan unique?—R. Selon un plan unique, je crois, oui.

M. Cannon:

D. Ai-je bien compris, tout à l'heure, que vous avez dit que dans cette maison de \$6,000, il n'y avait pas de système de chauffage?—R. Il n'y a pas de système de chauffage.

M. Gagnon:

D. Il n'y a pas de peinture, non plus?—R. Il n'y a pas de peinture à l'intérieur, non.

M. Robichaud:

D. Il y a l'eau courante dans la chambre de bain?—R. Oui.

The CHAIRMAN: Gentlemen, have you all had an opportunity to question the witness?

Thank you very much, Mr. Bourret.

APPENDIX

A complete record of Mr. Bourret's examination follows with English text

(Translation)

Mr. BOURRET: The Central Council of Quebec City began construction of those houses and the temporary financing was made by the unions, the syndicates, the Quebec City Central Council.

By Mr. Cannon:

Q. The Central Council of the Catholic Syndicates?—A. Yes, of Quebec City.

(Text)

Mr. CANNON: Yes, he says that the original financing of these cooperative housing projects was done by the Central Council of the National Syndicate which is the Quebec union—they supplied the money.

Mr. McILRAITH: In the particular cooperative of which you are speaking, will the houses, when they are finished, be owned by the individual members of the cooperative?

The WITNESS: Yes.

(Translation)

Mr. CANNON: In these cases, the houses are owned by the individual members of the cooperative.

(Text)

One question I might ask that might be of interest to the committee is this:

(Translation)

By Mr. Cannon:

Q. Do the individual members of the Cooperatives—I will translate this question—supply their labour; do they work?—A. They do not work, they do not supply labour. The only work they have to do is to complete the house, because the house is delivered to the owner; it is not painted and they must paint it.

(Text)

Mr. CANNON: I asked him if the members of the cooperative supplied labour in the construction of these houses and he says "no" except for the interior painting. When the houses are delivered to the members of the cooperative they are not painted inside and they are supposed to do that.

(Translation)

By Mr. Dumas:

Q. Mr. Chairman, perhaps you could give us some additional information regarding the second and third paragraphs of his brief, where it says that you have built several houses in the suburbs of Quebec City. Mr. Bourret, are those houses modern?—A. Something like that.

Q. Something like that?—A. Five or six are now built. Furthermore, construction has started only at the end of last summer, and it was only an experiment. It was then impossible to proceed quickly. I will explain, if you wish, how we proceeded. We first built one house, and then we invited the loan companies and the credit unions to come and see it. We have asked them: How much do you lend on this type of house? They replied: We will lend \$5,500, and we said: Yes. Then we finally went along with that.

Q. Now, what is the interest rate of the credit unions?—A. I do not know, but I think it is $5\frac{3}{4}$ or 6 per cent.

Q. But is there not a fixed rate?—A. I am not a member of the Co-operative, so I cannot tell you, but I think it is $5\frac{3}{4}$ or 6 per cent, and I believe the government gives a refund.

Q. What is the amount of this refund?—A. 3 per cent.

Q. Now, do you intend to build many such houses?—A. This kind of construction will be kept up in Quebec City.

Q. I understand that the credit unions are ready to lend the money for some twenty of those houses?—A. The credit unions have not much money available, though. Last year, they did not have one million dollars available for the cooperatives.

Q. Mr. Bourret, you were saying a while ago that your union, this Catholic Central Council of Quebec City, had advanced the money for building purposes and for the projects where labour was supplied. Is it your intention to continue advancing money on projects of this kind?—A. Well, when a house is built, it is then mortgaged, and we have helped reducing the scarcity of such houses.

Q. I think you deserve congratulations for this, and this brings me to a question I wish to put to you. We of Northwestern Quebec and Northern Ontario have had strikes very recently and they have cost a lot to the unions concerned. I was wondering if those unions, instead of spending money in strikes of this kind, would not be well advised instead to lend money to their members, since it is said that housing is so important for the worker, as it encourages him to remain in the district and keep on working there, giving him a better morale. You do not have to answer my question, but I would like to have your opinion on this matter, Mr. Bourret. Do you wish to reply to it?—A. Your question puts me in a rather embarrassing position. But I shall try to reply.

Q. Well, to make it easier: You have made loans in Quebec City by advancing money to your members and, in this manner, you have made it possible for them to own their house. If you have acted that way, it is because it was the right thing to do and I am positive that the same could be done elsewhere, if need be.

Mr. BOURRET: Now, it does not mean that this will be done in Quebec City only; similar experiments may be tried elsewhere. However, certain conditions must be met as, for instance, the purchase of parcels of land. They have land which was acquired at low prices and all that... then. Now, in the case of construction in Quebec City, there is also a point I wish to mention, and on which there was no question asked: it is that the building standards are not the same as those required by Central Mortgage and Housing. The houses are very comfortable, even large, but they have not followed the C.M.H. building standards which, in certain cases, are too high. This is another factor which is probably limiting house building, specially in the province of Quebec, for those people who want to become property owners.

Mr. DUMAS: And especially...

Mr. GAGNON: It would be well to translate what Mr. Bourret has just said.

(Text)

Mr. CANNON: He says that another limiting factor is that the building standards as required by Central Mortgage and Housing are too difficult to comply with and the houses like the ones he mentioned in his brief that they build in Quebec are comfortable and adequate houses, but do not conform to the standards of Central Mortgage and Housing. They have lower standards.

(Translation)

By Mr. Dumas:

Q. On page 7 of your brief, your argument shows that the interest rate is too high, $5\frac{1}{2}$, $5\frac{3}{4}$ or 6 per cent? Your argument is based on the cost in money, is it not?—A. Exactly, sir.

Q. Then, our people should be able to borrow at lower rates?—A. That is what we are asking; it is our point of view.

Q. Just the same, as far as the money you borrow for the houses you are building in Quebec City is concerned, whether the interest rate is $5\frac{3}{4}$ per cent or 6 per cent—you are not absolutely sure—the monthly payments made by the borrower are lower because he gets a refund of 3 per cent on the interest he has to pay, so that he actually pays only $2\frac{1}{2}$ per cent or 3 per cent.

By Mr. Cannon:

Q. Is it not true that the 3 per cent refund you just mentioned, which is paid by the provincial government, is refused to those borrowing from C.M.H.?—A. It is not paid on direct loans.

Q. If the provincial governments were not making this exception, it would obviously help solve the housing problem?

Mr. GAGNON: It must be pointed out that there is a special legislation...

Mr. CANNON: Let the witness answer.

Mr. BOURRET: Certainly, if the provincial government were paying the refund...

(Text)

Mr. BOUCHER: I believe that these questions and answers should be translated as they come out.

The CHAIRMAN: You will have a translation of this. There will be some other questions asked and you will be able to follow it.

Mr. BOUCHER: It does not bother me.

(Translation)

By Mr. Dumas:

Q. Under bill No. 102, if the bill were adopted by Parliament and if banks made the loans available, would the borrowers be able to get that interest refund under the Quebec legislation?—A. I do not know. It will be up to the provincial government to decide whether banks will be recognized as lending institutions on the same level as the credit unions. Of course, if we could obtain that refund on loans that the banks might make, well, that would be quite an advantage, provided the banks had enough funds to meet the demand.

Q. It would even be more advantageous than what you suggest, namely that the C.M.H. grant direct loans?—A. Yes, it would certainly be more advantageous. It must be understood that those are figures, and figures do not lie.

Mr. ROBICHAUD: To follow up the last question, which we just studied. Is this refund paid direct to the borrower, or is it paid to the Co-operative or credit union? Does the provincial government remit directly to the borrower?

Mr. BOURRET: The government makes the remittance to the borrower, I think. The refund goes to the borrower. The borrower pays his interest rate to the lending company, say $5\frac{3}{4}$ per cent and, every month, he gets the refund.

By Mr. Dumas:

Q. Does he get it directly or is the Co-operative getting it?—A. The Co-operative has nothing more to do with the house once it is finished.

Q. You will admit that the government of the province of Quebec remits a refund directly to the borrower?—A. To the one who—

Q. Who is lending?—A. Yes— The refund is finally made to the borrower.

Mr. CANNON: I think that the provincial government pays 3 per cent directly to the lender.

Mr. ROBICHAUD: The lender remits it—

Mr. CANNON: The borrower gets the credit for it.

Mr. BOURRET: The one who benefits by it is the borrower.

Mr. ROBICHAUD: In last paragraph, page 6, you state: "According to the Bill, C.M.H. will approve and insure the loans, and will itself set the building standards". Are you trying to suggest that such standards are a little too severe or too high?

Mr. BOURRET: Well, C.M.H. standards are not very popular; they meet with some opposition in the province of Quebec. I am speaking for the province of Quebec, where certain objections are raised against C.M.H. standards.

By Mr. Robichaud:

Q. Would you elaborate a little on that?—A. For instance, according to the C.M.H. plans, the living-room must be large. But, if out of a limited number of feet you take a rather large space for the living-room, that leaves but a small space for the kitchen. C.M.H. plans are drawn up that way. In the Province of Quebec, there is no such thing as the living-room, especially in the workmen's dwellings. What the labourer likes is a parlour or sitting-room, that is, a closed room which is opened when there are visitors. Under the C.M.H. plans, the kitchens and the parlours are too small, and that does not suit our people.

Q. Now, did labourers or any of those who planned to build homes actually asked C.M.H. to alter its plans? Were they not allowed to submit their own plans, for instance?—A. I do not know.

Q. Does not C.M.H. offer its own plans for the sole purpose of giving some idea, some sort of guiding rule?—A. Well—I could not say. I know, however, that some people drew up plans which were sent back to them by C.M.H. for the reason that such plans did not meet the standards required as to the lay-out and, the size of the rooms.

Q. There is another question. It is about the cost of the house or houses which were built for \$6,000. Could you give us any information or explanations? For instance, what requirements of Central Mortgage would have contributed to increase the cost of such a house? Is it the layout of the house only?—A. The CMH did not make any loans.

Q. What was lacking to meet the requirements of CMH?—A. I do not know. I could not answer you.

(Text)

Mr. ROBICHAUD: These houses were built at a cost of \$6,000, and it would have to follow—wouldn't it be very interesting to know whether they met the requirements of Central Mortgage? At first it was intimated it may have been a division as to the size of the living room. I do not think it would have an effect on the cost of the house. There seem to have been other factors which were much more important, to bring the cost down to \$6,000.

(Translation)

Mr. BOURRET: Well, Sir, if you are interested to know them, we shall forward them to you shortly, together with the plans of the house, the lay-out and the materials used.

(Text)

Mr. ROBICHAUD: That will be very interesting.

(Translation)

By Mr. Robichaud:

Q. On page 7, you say in the paragraph before last: "It must admitted that the housing problem is a problem on the national scale caused itself by our national policy." However, don't you agree it is not our national policy but rather international policy which is responsible for this situation? Is it not the result of international policy rather than that of Canada?—A. Undoubtedly, this whole problem proceeds from global policies. It remains, however, that Canada's leaders are the ones who took decisions. All the countries in the world go through a housing crisis. We would have therefore to establish a Central Mortgage and Housing Corporation on a world scale.

Q. This is the point I wanted to come to. It is not Canada's national policy which is solely responsible for the present housing situation in which we find ourselves?—A. We must agree that it is not our own policy because, in the final analysis, this is influenced by international policies and by the rationing of building materials. But all this can be attributed to our national policy to a certain extent.

By Mr. Cardin:

Q. I should like to know whether the houses you mentioned a while ago were provided with a heating system? Is the heating system included?—A. No; the heating system is not installed.

Q. That is likely the reason. Now, I do not wish to elaborate too much, but I should like to know what is said on page 6: "This is why our organization cannot but show disappointment, because neither our members nor the workers generally will have any hope of improving their housing conditions with the proposed legislation." Now, has your Federation any concrete suggestions to offer in connection with the present problem, besides what is already covered by our present legislation?—A. We might say that most of what we are asking is already covered to a certain extent; we feel however, that the legislation does not go far enough in these matters. Q. As a matter of fact, your suggestions are already embodied in the bill.—A. Well, all of them are not embodied, however, and from what has been said here and there by bank representatives and by those who came here, and all that, we do believe that the available funds will no doubt be insufficient. We wonder why C.M.H. should not be authorized to make direct loans and at a lower rate than at present.

Q. If I understand correctly Section 40 of the Act, does it not authorize the Central Mortgage and Housing Corporation to grant direct loans, which seems satisfactory to me?—A. Yes. In some cases, C.M.H. does grant direct loans in those areas where they are impossible to obtain. In cases where Insurance companies or other lending institutions do not grant loans or do not want to grant them C.M.H. grants direct loans. Does it mean, that under the present bill, C.M.H. will regularly grant loans to all those who will be refused them by lending institutions? That I do not believe. Besides, there are the conditions laid down, the rate of interest charged, which, in this case, we find too high.

(Text)

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: I understand that Mr. Robichaud has really covered what I wanted to cover. I understand he has been talking about lower figures for construction which are in this brief. I think this is a very important matter. With regard to the standards of construction to which the Central Mortgage is tied in—I am not at all sure whether it is by their own doing, but they are tied in—I have never been sure whether they are standards set up by theoretical people. In other words, is it the ideal house for the ideal family, instead of a workaday house for workaday people? I bought an old house and could have spent a lot of money on it, but we made a few minor alterations and I am quite sure it did not conform to any ideal standards, but we live in it quite happily.

The CHAIRMAN: You remember Mr. Bengough's evidence yesterday, in which he said that those were minimum standards.

Mr. MACDONNELL: I remember he did say that, and I know it is his opinion, but I am stubborn and I am still not satisfied. I still have my own opinion.

The CHAIRMAN: Your opinion weighs heavily with us.

Mr. MACDONNELL: I gathered—and I am open to correction, Mr. Chairman—that Mr. Robichaud did not get a very detailed explanation of how this house was built for \$6,000.

Mr. ROBICHAUD: They went into detail on that.

Mr. MACDONNELL: I did not understand that.

The CHAIRMAN: Mr. Crestohl.

(Translation)

By Mr. Crestohl:

Q. Mr. Bourret, you said that you had conducted successful experiments; would you kindly tell me what is the rate of interest charged by the credit unions in Quebec City?—A. I could not tell you, but I believe it is 5½; I cannot tell you, since I do not live in Quebec City.

Q. But you stated that the credit unions in Quebec City are ready to build those houses at \$6,000 and that they are ready to loan \$5,500, did you not? Can you tell us what is the rate of interest charged by the credit unions on loans of \$5,500? We must go by a rate of interest, I believe.—A. I did not quite understand the question.

By Mr. Cannon:

Q. What rate of interest do they charge; you said the rate was 5½ or 6 per cent.

By Mr. Crestohl:

Q. That is what we were asking you, but why do you claim that the rate of interest charged by Central Housing is too high if you can build those dwellings in Quebec City at a rate of 5½; why is it too high when you get the money from Central Housing and not too high in Quebec City?—A. The rate is the same, but for the borrower it is lower, since he gets a refund of 3 per cent from the provincial government which brings down the interest.

Q. Does he not receive the same return if he borrows from a bank?—A. Provincial legislation does not provide for it.

Q. You may perhaps be able to tell us also if the credit unions in Quebec City have sufficient funds for the building of houses around the city. For instance, what are their resources?—A. I could not answer on behalf of the credit unions. However, to start with, I know that under a provincial Act they must maintain a reserve fund of, I believe, 50 per cent liquid funds. Therefore, this limits to a certain extent their lending capacity. Secondly, they must lend money mostly to their members, to those that are members of the credit unions. This is another factor which tends to limit the loans. I cannot state positively, since I do not have the figures with me, the amount the credit unions can invest in family housing. I am aware that the credit unions have found it difficult last year to lend \$1 million.

Q. You made a good impression when you implied to us that it was possible to build a house in Quebec City for \$6,000. That was a very strong statement. But now, we wish to know if it is still possible to have those houses built in Quebec City, if they have the necessary funds over there. Do they have the money?—A. Yes, they have the money to build a limited number of them, certainly they have.

Q. Did you, for instance, read Father Marrocco's evidence? Did you read the whole evidence he gave on the question of cooperatives?—A. Yes, I did.

Q. Did you read it?—A. Yes.

Q. Would you tell us in what way your proposal is similar to Father Marrocco's? Would there be a difference?—A. I believe the project is different.

(Text)

Mr. ROBICHAUD: I think that in this case, most of the houses built under the plan of Father Marrocco for the group were owned by the group.

Mr. McILRAITH: No.

(Translation)

A. I do not have with me Father Marrocco's evidence. If I had, I could compare it. But as I do not have it, I cannot specify if it is really different.

Q. Your association is a sort of cooperative?—A. I beg your pardon?

Q. Is not your association a kind of cooperative?—A. Yes, it is a co-operative, but it is different from other cooperatives that have built houses in the province of Quebec.

(Text)

The CHAIRMAN: Very well, Mr. Gagnon.

By Mr. Gagnon:

Q. Were the loans made by the credit unions to this cooperative towards housing in Quebec City guaranteed by the provincial government?—A. Were they guaranteed by the provincial government?

Q. Yes. The loans made by the credit unions.—A. The provincial government does not guarantee loans in the province of Quebec.

Q. Do we not have in Quebec a Housing Act which guarantees loans to the credit unions?—

(Text)

In Quebec we have a law entitled "An Act to Improve Housing Conditions". A section of that law reads as follows:—

3. Subject to paragraph "b" of section 2, the credit unions and loan societies are authorized to lend up to 100 per cent of the cost of any new dwelling; however, when the cost exceeds the real value of the building, as determined by the credit union or the society which makes the loan, the latter must be reduced to the level of such value.

(Translation)

A. No, sir, it does not mean that. It means only that they are authorized to lend money. It does not mean that the provincial government guarantees the money, but that they are authorized to lend. Where do you read the word "guarantee"?

Q. The government would not guarantee them?—A. No, nothing of the sort.

Q. Is the Provincial Housing Act more favourable, more advantageous to the people of Quebec than the Federal Act?—A. I am not in a position to give an answer to that.

(Text)

Mr. CANNON: He asks if the provincial law on housing is more favourable than the federal law.

The CHAIRMAN: I wonder if the witness is in a position to give an answer to such a question. I do not consider he is an expert on that subject. You would not want my opinion, would you? All right, thank you.

Mr. GAGNON: That is all, thank you.

The CHAIRMAN: Now, Mr. Breton.

(Translation)

By Mr. Breton:

Q. We have not spoken much of building costs. Don't you think that the main objection to all this is the high cost of building?—A. Undoubtedly, that cost has increased as well as the cost of all other products. The cost of labour in the housing industry has gone up as in other industries. That, we do admit. However, according to statistics, which I have not with me at present, I believe that the cost of housing from the standpoint of labour has not increased in proportion with the cost of industrial enterprise.

Q. Could not the Catholic Labour Union study or help improving federal legislation? Could it not suggest a plan for the workmen's dwellings and present it to the committee to be accepted as a housing standard by Central Mortgage and Housing Corporation?—A. A plan dealing with housing standards, that is a matter that we may take up, but I cannot tell you if one will be submitted.

Q. I believe that the Catholic Union could be of great service to Central Mortgage and to the federal government by presenting any suggestion along that line. Could you not also, when submitting that plan, establish the cost of

those dwellings in order that it might serve as a comparative table to those who wish to build workmen's dwellings in Quebec City?—A. Now, we shall send you the plans of the houses built in Quebec City. That will give you an idea of those plans. I must say that all the work on those houses has been done on the basis of paid labour in Quebec City.

Q. Has the building been done according to various plans or according to a single plan?—A. According to a single plan, I believe, yes it was.

By Mr. Cannon:

Q. Did I correctly understand you to say, a while back, that this house of \$6,000 was not provided with heating system?—A. There is no heating system.

By Mr. Gagnon:

Q. There is no paint either?—A. There is no paint inside, no.

By Mr. Robichaud:

Q. Is there running water in the bathroom?—A. Yes.

(Text)

The CHAIRMAN: Gentlemen, have you all had an opportunity to question the witness?

Thank you very much Mr. Bourret.

Canada - Banking and Commerce,
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

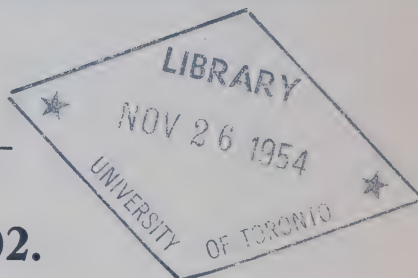
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

THURSDAY, FEBRUARY 25, 1954

WITNESSES:

Mr. B. K. Fraser, Chairman of the Legislation Committee, National House Builders Association.

Mr. R. Brunet, President, Mr. V. L. Leigh, Chairman of the Housing Committee, and Mr. S. D. Chutter, Assistant Manager, all of the Canadian Construction Association.

MINUTES OF PROCEEDINGS

THURSDAY, February 25, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hellyer, Huffman, Hunter, Low, Johnston (*Bow River*), Macnaughton, McIlraith, Michener, Mitchell (*London*), Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Mr. B. K. Fraser, Chairman of the Legislation Committee, and Mr. John Caufield Smith, Secretary-Manager, of the National House Builders Association; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation.

The Committee resumed consideration of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses and the Improvement of Housing and Living Conditions.

Mr. Fraser called, presented a brief on the Bill under consideration and was examined thereon.

During the course of the examination of the Witness Mr. Smith answered questions specifically referred to him.

At 1.20 o'clock p.m., the examination of Mr. Fraser being completed, he was retired, and the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Balcom, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hellyer, Huffman, Hunter, Johnston (*Bow River*), Macdonnell, Macnaughton, McIlraith, Mitchell (*London*), Philpott, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Mr. R. Brunet, President, Mr. V. L. Leigh, Chairman of the Housing Committee, and Mr. S. D. Chutter, Assistant Manager, all of the Canadian Construction Association; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of Central Mortgage and Housing Corporation.

The Committee resumed consideration of Bill No. 102.

Mr. Leigh was called and presented a written statement on the Bill under consideration; the said statement being read into the record by Mr. Chutter.

Mr. Leigh, assisted by Messrs. Brunet and Chutter, was examined on his statement to the Committee.

At 5.30 o'clock p.m., the examination of the witness being concluded, they were retired, and the Committee adjourned to meet again at 11.00 o'clock a.m., Friday, February 26, 1954.

R. J. GRATRICK,
Clerk of the Committee.

EVIDENCE

THURSDAY, February 25, 1954.
11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum.

There will be a meeting of the agenda committee after the afternoon meeting at 5.30. It will be very short.

We have this morning the brief of the National House Builders Association. Mr. R. K. Fraser, Chairman of the Legislation Committee, will read the brief. Mr. John Caufield Smith, the secretary-manager, is with him. Mr. Gordon S. Shipp, the president, was grounded in Toronto this morning. The plane did not take off. He sends his regrets.

Mr. R. K. Fraser, Chairman of the Legislation Committee, National House Builders Association called:

The WITNESS: Since in principle, Bill 102 has been drafted to include many of the recommendations made by the National House Builders Association over the past two years, we must endorse the efforts of our government to sustain the house building economy. Evidence which has already been presented to your committee would indicate that our production of homes has not kept pace with current needs to say nothing of making inroads on the backlog, the numerical quantity of which is subject to great divergence of opinion but which is substantial by even the smallest estimate.

Before dealing with specific provisions of the bill, we would like to express our grave concern with reference to the hiatus which has taken place in the mortgage market since the first mention of new legislation some months ago. As far as new building projects are concerned, the whole economy is at a standstill and as far as we can determine, it may be well towards the end of March before the new legislation in its final form is passed. This of course represents a very serious situation to builders. In our industry early planning is absolutely essential. Since the end of the war we have gone through several changes of legislation and always there has been a period when we have not been able to conduct our business in a normal fashion. If costs are to be held down and if unemployment is to be kept to a minimum, it is important that builders be able to commence their spring plans immediately. To do this they must have some idea of the controlled selling prices and, of course, must have loan commitments arranged in order to permit advance purchasing and to be able to do all the paper work which is necessary and which, at best, is most time-consuming. Builders across Canada have expressed concern that if spring starts should be delayed, the impact of buying on the market at the height of the summer season could result in higher material prices. Of course, you can realize that this is of some importance to us since there is a ceiling on N.H.A. selling prices in order to qualify for the maximum loan but there is no ceiling established on any of the components which make up the builder's cost.

It is our recommendation therefore that Central Mortgage and Housing Corporation be urged to place in the hands of their branches the revised appraisal system and standards booklet without delay and to issue instructions to process loans which would include approval of plans, specifications and plot plans along with maximum selling prices and loan levels on an as, if and when basis. This would permit builders to proceed with their planning in a normal fashion and would mean that building could commence at an early date which would effect greater economies and result in greater employment at an earlier date. The assumption is, of course, that the new legislation will be completed in time so that firm mortgage commitments, having gone through all the preliminary stages of Central Mortgage and Housing Corporation, could be picked up by the lending institutions in sufficient time to permit advances to builders when required.

A natural question which arises is what would happen in the event that the mortgage commitments given such preliminary approval by Central Mortgage and Housing Corporation were not picked up by the lending institutions? In such an event a direct position by the corporation in the N.H.A. loan business would be required. This leads us to express our alarm at some of the recent evidence which you have heard. It has always been our assumption that the new legislation had as one of its primary purposes the alleviation of a growing shortage of mortgage funds. Since Central Mortgage and Housing Corporation are withdrawing their contribution of 25 per cent to joint loans, it is absolutely essential that other lending institutions fill the gap. It has been assumed that this would be done by our chartered banks, since you have already heard evidence that it is not likely that the life insurance companies, the principal lenders under the N.H.A., will be able to make more money available in 1954. Now you have heard evidence that the banks may not have funds in the necessary amounts to fill the gap in 1954 and if this is a fact, coupled with the hiatus already referred to, housing starts in 1954 could be seriously affected.

We regret very much as far as we know, you have not had and are not likely to have an opportunity to study the regulations which in many ways will govern the effectiveness of the new legislation. Many of the regulations which will be imposed will have a direct bearing on the extent of participation by the present lending institutions, the chartered banks and others who may be attracted by the new provisions. We feel that these regulations should be discussed thoroughly before your committee can make a true appraisal of whether or not the new legislation is going to provide an adequate housing program. In this connection, we should like to point out that in the past regulations have, in many cases, been in the form of recommendations and not always have the lending institutions seen fit to comply with the suggestions and recommendations of Central Mortgage and Housing Corporation. For example, the present National Housing Act makes provision for 25 and 30 year amortizations but most lending institutions have adhered very rigidly to a 20 year amortization and, in some cases, to an even shorter period. Also, the present regulations permit approval of purchasers whose gross debt service exceeds 23 per cent provided full facts are submitted and Central Mortgage and Housing Corporation have an opportunity to join in the approval. There have been, it is true, a certain percentage of approvals of purchasers whose gross debt service exceeded 23 per cent but, in general, since there has been a shortage of mortgage funds, lending institutions have been very rigid in approving credit risks and in our opinion, in many cases they have been excessively rigid. Since it would appear that the shortage of mortgage funds is going to continue for some time, we have every reason to expect that there will continue to be a very rigid selection of purchasers.

While we already mentioned, as a temporary expedient, the possibility of Central Mortgage and Housing Corporation having to take a direct position in the mortgage market, in general our association would prefer to see as much of our building economy as possible freed from direct government control. We would prefer to see mortgage money administered by private enterprise but, of course, under the regulations and standards imposed by Central Mortgage and Housing Corporation because we do not deny the fact that the N.H.A. over a period of some 18 years has made home ownership available to more of our citizens than otherwise would have been the case, and generally speaking, has raised housing standards. We can understand Central Mortgage and Housing Corporation's desire to retain full control of valuation and compliance inspections under this new legislation but we should like to point out that to some extent competition is being removed from the standpoint of service to builders and borrowers. It will be important therefore for the officials of Central Mortgage and Housing Corporation to keep this constantly in mind. We believe that Central Mortgage and Housing Corporation has been very capably directed. Where differences occur between builders and employees of Central Mortgage and Housing Corporation, it is usually at the local level. Most of these differences occur when either standards or regulations are misinterpreted by an over-zealous inspector or when authority is exercised beyond the normal powers and where discretion is abandoned. Mr. Mansur has already mentioned that very shortly builders may be accusing Central Mortgage of autocracy and we should like to mention this now because there are many recorded cases where the fault did not rest with the builder. One solution to this problem would be representation on the board of directors of Central Mortgage and Housing Corporation by an official of the National House Builders Association so that mutual problems could be considered at top level. Our association and our individual members have always been given a very courteous and attentive reception by Central Mortgage and Housing Corporation officials but rarely, if ever, have we been approached or been consulted with regard to new regulations or legislation. That is why we prize so highly this opportunity to appear before you today, and feel that as builders, representing one of the largest segments of our economy, we have a substantial contribution to make.

Bill 102 seeks to assist in solving our current housing problem principally by reducing the down payment and introducing a form of mortgage insurance to attract additional mortgage funds. There has been some comment amongst our members that the 10 per cent down payment should apply to the first \$10,000 instead of the first \$8,000 but in general it is recognized that to lower the down payment further would mean an increase in the mortgage carrying charges and the net effect would be to decrease the number of potential home buyers who would be able to qualify under the existing regulations. However, we should like to go on record that we cannot understand why a different approach is made under the Defence Workers' Section of the Act where a 10 per cent down payment for a special class of worker which, in our opinion, is very difficult to define.

In speaking to our various branches from Montreal to Victoria, the principal objection to the legislation is that while presumably it will increase the supply of mortgage funds and will lower the down payment for the working man's home, it does not cater to a very wide band of our population. Attached to this brief are statistics prepared by our Hamilton and London branches. For example, in Hamilton assuming a 5½ per cent interest rate and a 25-year amortization, the typical house with a controlled selling price of \$10,000 can be purchased only by those earning in excess of \$3,900 per annum. This amounts to \$75 per week, whereas the average weekly wage in Hamilton is \$61.70, and only 13 per cent of the male wage earners and 30

per cent of the male salaried employees earn over \$70 per week. Actually, since the ratio of the salaried employees to the total is 17.8 per cent it works out that if a worker must earn over \$70 a week, which incidentally would only qualify him for a \$9,000 house of which there are very few, we are catering to only 16.0 per cent of our working population in Hamilton. And of these many might not qualify. Calgary statistics are very similar to those for Hamilton and you will also find attached to this brief some calculations for the Toronto area. The typical house in Toronto at \$12,500 will require an earning power of \$4,300 and while it has been reported that effective demand in Canada is at a very high level and particularly so in Toronto, it should be recognized that a great many of the purchasers in all of our urban centers are those who are selling older houses. This does not help the young married couple who do not at present own an older home and who have only a limited opportunity to accumulate savings so that they will not have to pay exorbitant rents and can purchase a home of their own. There are many recorded cases where these people have been forced to buy an older home and to assume an existing first mortgage and carry a heavy second mortgage which has been discounted at perhaps 25 per cent or 30 per cent and which carries an interest rate of 7 per cent or over. Of this group, there are many with good earning ability who are able to budget their incomes so that they should and could support the purchase of a new home under the existing legislation, but only if full advantage is taken of the provisions for extended amortization and of recognition of special circumstances when considering the maximum gross debt service charge which will be approved.

In order to cater to the large band of wage earners earning \$60 a week or over, there are four methods of approach.

1. The interest rate should be established at the lowest possible rate which will attract mortgage funds but still encourage home ownership. It must be remembered that under the present N.H.A. borrowers have been paying an effective interest rate of $5\frac{1}{4}$ per cent only because 25 per cent of the loan was advanced to the lending institution by C.M.H.C. at a reduced rate of interest. Under the new legislation the government is withdrawing this contribution towards a lower effective interest rate on the face value of the mortgage.

2. The amortization should be established on a 30-year basis with provision for adjustment to a 25- or even a 20-year basis where the purchaser has sufficient earning capacity considering his family circumstances, the nature of his job, etc. It is interesting to note in the *Wall Street Journal* of February 16, 1954, that a meeting of the Mortgage Bankers Association of America in Chicago concluded that the nation's mortgage lenders face no serious problem on overdue payments. As of December 31, 1953, only 0.12 per cent of Federal Housing Administration insured mortgages were three months or more delinquent and only 0.21 per cent of G.I. mortgage payments were in default on the same basis, and this is under legislation much more lenient than the old N.H.A. and still more lenient than the new legislation now proposed.

3. Consideration should be given to increasing the gross debt service from 23 per cent to 25 per cent with special consideration for purchasers whose circumstances might justify a gross debt service ratio of 27 per cent. Actually, the present regulations provide for a consideration of special cases but as we have previously pointed out, it is not mandatory upon the lending institutions to pass on a recommendation to C.M.H.C. where the gross debt service is over 23 per cent. In a market where mortgage funds are short, lenders naturally are going to exercise the highest possible grade of selection.

4. We understand that consideration is being given to the possibility of including a percentage of the wife's earnings. The figure mentioned has been

20 per cent. It also has been suggested that the income on which the gross debt service is calculated should include such portion of the wife's investment income as the approved lender considers appropriate. We heartily endorse such a regulation but again we should like to point out to your committee that we believe that this regulation will not be mandatory and thus, we question its effectiveness.

The building industry is the last to carry controlled selling prices but we realize that there are circumstances in some communities which make the lifting of the controlled selling price impossible at the present time. We would like to point out that in the face of rising labour rates and comparatively minor decreases in some material costs, Canada's home builders have done a good job in maintaining stable prices over the past two years. We believe that it is a fair statement to say that our knowledge and efficiency has increased and that, with or without ceiling prices, our builders, realizing that a return to a highly competitive market is a healthy state of affairs, will continue to hold the line and it is to be hoped even reduce prices. However, we are anxious to go on record as requesting that C.M.H.C. maintain a certain flexibility in this question of maximum selling prices as conditions vary very greatly from community to community and not always has C.M.H.C. kept pace with such changes. We are in great hopes that the special investigation conducted by C.M.H.C. last Fall with regard to costs and man hours involved in house building will result in a more uniform and accurate approach to the question of valuations and particularly selling prices. No doubt your committee will be hearing evidence in the above regard. May we be permitted to point out at this time that while there is a ceiling imposed on selling prices where the maximum loan is to be made available, there is no ceiling on material prices and labour rates and we are approaching new legislation which involves a higher interest rate for the borrower, a mortgage insurance premium for the protection of the lender which did not exist previously, and an application fee in the amount of \$35 as opposed to the present appraisal and inspection fee of \$20.

The builders who comprise our association feel that organized research might contribute to better homes at a lower cost but unfortunately individual action is both uneconomical and sometimes difficult to initiate. There is a substantial appropriation in the budget for C.M.H.C. in connection with research and it is suggested that representative builders might be included on a committee to actively investigate all the possibilities which might be opened up by an adequate research program. We are sure that our builders, particularly those with large and well established organizations, will come forward to offer their facilities so that statistics, cost data, procedures, standards, etc., can be investigated and applied locally to best advantage should C.M.H.C. see fit to expand their activities in this regard.

To show how effectively builders can co-operate with C.M.H.C., only last week, the corporation submitted a draft of their new building standards for the inspection and comment of our association. We have practical builders of long experience examining these closely, and hope to have our comments ready very shortly, actually the end of this week. These new standards have been badly needed, and it is hoped that once they are adopted, there will be no lack of understanding on the part of builders, and that inspection will be more uniform and of a higher standard than in the past. We might add that we are requesting C.M.H.C. to give 90 days' notice before making any further changes since builders must make their plans well in advance and adopt a forward purchasing policy. This notice has not always been given in the past.

C.M.H.C. have made a great contribution to our housing economy in producing an increasing volume of statistical data and analysis of the importance of such evidence, and it is suggested that they be encouraged to enlarge this phase of their work. Our own association has found it very difficult to assemble the data on a nation-wide basis and all too often in the past, necessary legislation has been enacted after a serious situation has been encountered and the resulting time lags mean an interruption in the production of homes and contribute to great valleys and peaks which help neither the home builder nor the prospective purchaser. As we mentioned in opening our brief, while we agree in principle with the new legislation, we are greatly concerned about the application of the legislation for the year 1954 particularly with regard to an adequate supply of mortgage funds. We feel that it will be particularly necessary for C.M.H.C. to keep their fingers on the pulse of the situation. We can think of additional legislation which may or may not be necessary at the present time, some of which is already in effect in the U.S.A. and which has been referred to briefly in the evidence previously presented to you. We have in mind the possible need for N.H.A. legislation to facilitate the sale of older homes and the open-end mortgage permitting home owners to modernize and add to existing housing without facing exorbitant finance charges for second mortgages or other means of acquiring additional funds. We know that housing is regarded as second only in importance to our defence program and we know that representatives in our various levels of government are conscious of the constant need for revision of our legislation. We would like to assure your committee that the National House Builders Association will endeavour to make constructive suggestions to all concerned whenever they seem necessary.

May we thank you for the privilege of appearing before you. We offer our assistance if there is any way in which we can help to enable you to make an early report to the House of Commons and thus to have this legislation passed in order to facilitate an early start on the housing program for 1954.

HAMILTON STATISTICS RE BILL 102

Fixed Selling Price.....	9,000	10,000	11,000
Loan (80% not always granted).....	7,200	8,000	8,800
Down Payment.....	1,800	2,000	2,200
Monthly payments (20 yr. 5¼%).....	48.29	53.66	59.02
Annual Payments.....	579.48	643.92	708.24
Mun. Taxes incl. Locals.....	220.00	245.00	270.00
Fire Insurance.....	12.00	12.00	12.00
Gross Debt Service.....	811.48	900.92	990.24
23% Ratio Annual Income Required.....	3528	3917	4305
NEW BASIS ASSUMING 5½%—25 yr.			
Loan.....	7,900	8,600	9,300
Loan plus Mtge. Ins.....	8,058	8,772	9,486
Down Payment.....	1,100	1,400	1,700
Monthly Payments.....	49.19	53.54	57.90
Annual Payments.....	590.28	642.48	694.80
Mun. Taxes incl. Locals.....	220.00	245.00	270.00
Fire Insurance.....	12.00	12.00	12.00
Gross Debt Service.....	822.28	899.48	976.80
23% Ratio.....	3575	3910	4247
25% Ratio.....	3289	3598	3907
27% Ratio.....	3045	3331	3618

FROM CHAMBER OF COMMERCE, HAMILTON

October 1st 1953.....	Average Weekly Wage	61.70
	Total Male Working Force	61,046

FROM CANADA YEAR BOOK 1952-1953

October 1950.....	Total male wage earners	334,065
	Earning Between 60.-69.99	17%
	70.-79.99	8%
	80.-89.99	3%
	90.-99.99	1
	100. or over	1
	Total male salaried employees	72,206
	Earning between 60.-69.99	18%
	70.-79.99	3
	80.-89.99	9
	90.-99.99	4
	100. or over	13

Ratio of Salaried to Total = 17.8%

Assuming Hamilton Average City.....	Wage Earners	50,194
	Salaried	10,852
	W. 8532	
Number Earning from 60.-69.99.....	S. 1953	10,485
	W. 4015	
70.-79.99.....	S. 325	4,340
	W. 1505	
80.-89.99.....	S. 976	2,481
	W. 501	
90.-99.99.....	S. 542	1,043
	W. 501	
100. or over.....	S. 1410	1,911
		20,260

% Qualifying earning over 60· weekly assuming steady work, proper age, good credit standing, married, adequate down payment..... 33.2%

% Qualifying earning over 70· weekly assuming steady work, proper age, good credit standing, married, adequate down payment..... 16.0%

Thus it can be seen that the old and the new basis, assuming 5½% or more and 25 yr. amortization for the new, are not any different as far as the gross debt service is concerned.

If a worker must earn over \$70.00 weekly and \$70.00 would only qualify him for a \$9,000 house, of which there are very few, we are catering to only 16.0% of our working population and of these many might not qualify.

If a worker must earn only over \$60.00 weekly, the market potential is increased to 33.2%. In Hamilton \$60.00 weekly is about the average and assuming the other necessary qualifications, this worker should be able to purchase a home of his own.

LONDON STATISTICS RE BILL 102

FIXED SELLING PRICE.....	9,000	10,000	11,000
OLD BASIS 20 Yr.—5½%			
Loan (80% not always granted).....	7,200	8,000	8,800
Down Payment.....	1,800	2,000	2,200
Monthly payments.....	48.29	53.66	59.02
Annual Payments.....	579.48	643.92	708.24
Mun. Taxes incl. Locals.....	150.00	170.00	190.00
Fire Insurance.....	12.00	12.00	12.00
Gross Debt Service.....	741.48	825.92	910.24
23% Ratio Annual Income Required.....	3223	3590	3957
NEW BASIS ASSUMING 52%—25 Yr.			
Loan.....	7,900	8,600	9,300
Loan plus Mortgage Insurance.....	8,058	8,772	9,486
Down Payment.....	1,100	1,400	1,700
Monthly Payments.....	49.19	53.54	57.90
Annual Payments.....	590.28	642.48	694.80
Mun. Taxes including Locals.....	150.00	170.00	190.00
Fire Insurance.....	12.00	12.00	12.00
Gross Debt Service.....	752.28	826.48	896.80
23% Ratio Annual Income Required.....	3270	3593	3877
New Basis at			
25% Ratio.....	3009	3305	3587
27% Ratio.....	2786	3061	3247
London Total Male Working Force Approximately.....	26,000		
Yearly Income.	Number Men	% of Male Working Force	
Up to 2000.....	7812	30.0	
2000 to 2500.....	7209	27.7	
2500 to 3000.....	5158	19.8	
3000 to 4000.....	3891	14.6	
4000 and over.....	1930	7.9	

Therefore, we find that;

- Only 22.5% of our male working force would qualify (on income basis) for a \$9000.00 House of which there are very few today.
- Of the above 22.5%, possibly one fourth would not qualify because of age, job insecurity etc.
- The new Legislation is no better than the old except in lowering down payments.
- We are not touching the volume of people needing adequate housing, namely in the 2500 to 3000 a year income bracket.

TORONTO STATISTICS RE BILL 102

Following are comparisons of Salary Requirements under present N.H.A. Joint Loan and New Proposed Insured Loan. Calculations are made under Joint Loan on basis of a full 80% Loan of Selling Price and repayments are at 5½% on a 20 year amortization. Calculations on Insured Loan are based on a Loan of 90% of \$8,000, plus 70% over that amount to an estimated maximum of \$12,500. Repayments at 5½% estimated on a 25 year amortization using a factor of \$6.10 per month per \$1,000. (These figures could vary slightly as actual factor is 6-1039 per 1000) Salary Requirement is based on 23% Gross Debt Service Ratio.

	Present Joint Loan	New Insured Loan	Present Joint Loan	New Insured Loan	Present Joint Loan	New Insured Loan	Present Joint Loan	New Insured Loan
Selling Price.....	\$ 11,500	\$ 11,500	\$ 12,000	\$ 12,000	\$ 12,500	\$ 12,500	\$ 13,000	\$ 13,000
Mortgage.....	9,200	9,650	9,600	10,000	10,000	10,350	10,000	10,700
Down Payment.....	2,300	1,850	2,400	2,000	2,500	2,150	3,000	2,300
Plus 2% Insurance.....		193		200		207		214
Total Mortgage.....	9,200	9,843	9,600	10,200	10,000	10,557	10,000	10,914
Monthly Payments.....	61.70	60.04	64.39	62.22	67.07	64.40	67.07	66.58
Annual Payment.....	740.40	720.48	772.68	746.64	804.84	772.80	804.84	798.96
Tax Estimate.....	200	200	200	200	200	200	225	225
Fire Insurance.....	12	12	12	12	12	12	12	12
Total G.D.S.....	952.40	932.48	984.68	958.64	1,016.84	984.80	1,041.84	1,035.96
Salary Requirement.....	4,140	4,075	4,275	4,175	4,425	4,300	4,525	4,500
Selling Price.....	\$ 13,500	\$ 13,500	\$ 14,000	\$ 14,000	\$ 15,000	\$ 15,000	\$ 15,600	\$ 15,600
Mortgage.....	10,000	11,050	10,000	11,400	10,000	12,100	10,000	12,500
Down Payment.....	3,500	2,405	4,000	2,600	5,000	2,900	5,600	3,100
Plus 2% Insurance.....		221		228		242		250
Total Mortgage.....	10,000	11,271	10,000	11,628	10,000	12,342	10,000	12,750
Monthly Payments.....	67.07	68.75	67.07	70.93	67.07	75.39	67.07	77.78
Annual Payment.....	804.84	825	804.84	851.16	804.84	903.48	804.84	933.36
Tax Estimate.....	225	225	225	225	250	250	250	250
Fire Insurance.....	12	12	12	12	12	12	12	12
Total G.D.S.....	1,041.84	1,062	1,041.84	1,088.16	1,066.84	1,165.48	1,066.84	1,195.36
Salary Requirement.....	4,525	4,625	4,525	4,725	4,625	5,075	4,625	5,200

The CHAIRMAN: Thank you.

Gentlemen, you will find some statistics on pages 6, 1, 8 and 9 of the brief. With your permission they will become part of the record.

I will give you a few minutes to collect your thoughts before we start our question period.

Gentlemen, I have on my list Mr. Applewhaite, Mr. Stewart, Mr. Fleming and Mr. Cardin.

Mr. Applewhaite.

By Mr. Applewhaite:

Q. Mr. Fraser, I was somewhat concerned by the statement that you made very early in your brief as to the slump in construction at the present time. Have you any indication as to how many homes are now actually under construction?—A. I am sorry, we have not any statistical data. I believe that Central Mortgage and Housing Corporation make a monthly count.

Q. Have you any idea how it would compare with the last two years at this time of the year.—A. As compared to last year most builders would now be pretty well advanced with their planning. They might not be digging holes in the ground. It depends on the section of the country. They would be processing loans, arranging their sub-contracts and purchasing materials. Most of our builders now, are proceeding with loan commitments which were granted by loaning institutions desiring to take advantage of the present Act and doled out in small quantities and I would call it a standby operation. Most builders are forced to await the results of this legislation.

Q. It is a pretty serious statement "the whole economy is at a standstill". I think we should have a little more information about that. Is that situation, to the extent that you believe it is, due to the uncertainty because of the hiatus or transition period between the two Acts?—A. Yes. I would say in general builders right across Canada are quite concerned at the moment because they are not able to proceed with their spring planning.

Q. There have not been as many starts this time of year under the old legislation as there were a year ago because you are awaiting the new legislation?—A. I would say that is a true statement, but I cannot back it up with any statistics. Our organization has been gaining strength over the last few years, but on a national basis to assemble statistics, has been difficult.

Q. But, you would say that there are fewer homes under construction now including specific planning than there were at this time last year?—A. Including specific planning, yes.

Q. Naturally I would like to get a little information if I can on costs, and you people are in the business. Could you give us an average breakdown as to the amount in percentage of the cost of a house which goes into materials and the amount of labour in actually building that house?

The CHAIRMAN: And property.

By Mr. Applewhaite:

Q. I am coming to that later.—A. Central Mortgage and Housing Corporation issue very complete data on that. As I recall it is in the range of perhaps 39 to 43 per cent labour and the balance in materials. I am talking about direct on site labour.

Q. I knew that Central Mortgage and Housing Corporation had some data on it. I wanted it from the point of view of private enterprise builders. I wondered if you had data on that?—A. Certainly, speaking for our own firm and most firms I believe, we would analyse it on that basis normally. In the investigation conducted by Central Mortgage and Housing Corporation last fall there

were representative builders who submitted detailed man hours involved in a house. I do not have those figures with me, but I am sure Central Mortgage and Housing Corporation could supply them.

Q. You are of the opinion that they are roughly 40 per cent?—A. Roughly 60-40.

Q. The 60 is labour on site?—A. Forty.

Q. Forty is labour on site and 60 material?—A. Yes.

Q. What percentage would be represented by the cost of the land?—A. That is varying a great deal and even more so as months go by. I think it is a fair statement to say that in the immediate post-war period, and certainly prior to the last war, most raw land was serviced under various versions of our Local Improvement Act as it is in effect in Ontario, and consequently the purchaser of a home paid for the improvements over a period which originally averaged at 10 years, and now is extended to cover 12 or 15, and perhaps more. In recent years there has been a trend on the part of municipal authorities, particularly in townships where most of the growth has taken place around the urban centres to impose upon the sub-divider or the sub-divider-builder, as the case may be, the full costs of local improvements. I believe it is usually considered, around the Toronto area where the practice is somewhat universal, that to fully service a lot amounts to in the vicinity of \$25 a front foot. Let us take for example a 50 foot lot. I think that the current price in the case of a sub-divider to a builder purchasing a small block of lots would perhaps run from \$50 to \$60 a foot which includes the cost of the services. Thus the homeowner is making a larger down payment to the extent that Central Mortgage recognizes an increased value and assumes a larger mortgage. In Hamilton where up until a week ago the Local Improvement Act has been fully enforced, the average lot would run in the neighbourhood of \$1,000 and thus selling prices on homes would perhaps run in the neighbourhood of \$2,000 or \$2,500 less in Hamilton than in the Toronto area. Of course, the Toronto purchaser is receiving fully paid for services or partially paid for services.

Q. Could you give us an estimate across the country on say a \$10,000 to \$12,000 house; how much actually of that \$10,000 or \$12,000 is in land on an average?—A. The old rule of thumb used to be, as far as valuations are concerned, that recognition should be given for 10 per cent of the value, but obviously, where services are fully paid for, the 10 per cent goes out the window and it might range in the vicinity of even 20 per cent. I do not think we could give an average across the country.

Q. Could you tell me this: on an average across the country how does the cost of land on which new homes are being built compare with the cost of similar land say two years ago?—A. Land that is already serviced has not gone up considerably in the last two years, if at all, but those purchasing land for sub-divisions in the last 18 months or two years it takes perhaps 2 to 3 years to prepare property and get it ready—would have had to pay higher prices for raw land.

Q. Than they would have had to pay two years ago?—A. Yes.

Q. Have you any idea how much higher?—A. That is very hard to quote on a Canada-wide basis. I have travelled on a national house builders tour across Canada, but my own knowledge is pretty well confined to the Toronto-Hamilton area, and I would say that there have been cases where raw land costs have perhaps gone up 25 or 30 per cent.

Q. Would you be of the opinion that is due to speculators taking advantage of the housing shortage and these housing Acts?—A. I might question the word "speculator". Most of this land in the area in which I am

familiar is being or has been held by farmers, although there are some cases where speculators have intervened between the builder or the sub-divider and the farmer.

Q. Now, I would like to ask you the question in everybody's mind which I will not object to if you decline to answer. In your association roughly what proportion of the total cost of the house represents the builder's profit?—A. Again, that is very difficult to say on Canada-wide basis. It is very difficult to say even on a localized basis, say in my own city of Hamilton, because builders vary a great deal in the size of their organizations, which affects their purchasing power, and they vary a great deal in efficiency. I would answer it this way, which is perhaps an indirect answer for which I apologize: The margin has been steadily decreasing under the N.H.A. controlled selling price.

The CHAIRMAN: Decreasing from what, Mr. Fraser? Do you mind, Mr. Applewhaite?

Mr. APPLEWHAITE: No, go ahead.

The CHAIRMAN: It is said to be a minimum of 20 per cent gross?

The WITNESS: When you say "gross" do you mean before overhead?

The CHAIRMAN: No, 20 per cent gross is the minimum that we have heard.

The WITNESS: That would be grossly exaggerated, Mr. Croll.

By Mr. Applewhaite:

Q. You would not like to hazard an uneducated guess as to what the figure is?—A. I think it has been mentioned in your evidence that appraisals, which under the controlled selling price legislation are the selling prices, that Central Mortgage consider 5 per cent as a satisfactory margin, and I would say that project builders building in the class of working men's homes would be quite satisfied with 5 per cent.

Q. Would you go to a step further and say that is what they are getting?—A. Yes, I would be prepared to say that they are. I am speaking very generally now, and always with particular knowledge of perhaps our own business and others, but not Canada-wide. While I am representing the National House Builders Association here, that is a question which really should be put to individuals to answer.

Q. I would like to ask just one or two other questions. In connection with amortization, am I right in assuming from your brief that you favour long-term amortization?—A. May I ask you what you mean when you say "long-term"?

Q. 30 years and over. I will explain to you why I am asking this question. I have asked it from previous witnesses. When I was home people who were criticizing the government and this legislation said that it was absurd to talk about long-term amortization like that because a man would have to complete his payments out of his old age security or he would die and never have acquired title to his home?—A. As an association, I do not think I ever heard an opinion expressed that the amortization of loans to home owners should exceed 30 years. We do think that there are cases where 30 years might apply and might be quite justified. Certainly the age of an applicant should have a bearing on the rating of a risk and there are a great many purchasers who are being approved now on what is called 5-15 years basis, whereby the amortization is accelerated the first five years which is quite in order and which applies in some cases, but not generally.

Q. Just two or three questions, Mr. Fraser, and then I will quit. At page 2, paragraph 6 of your brief, I assume that you do not altogether favour the

Central Mortgage and Housing taking over the full responsibility for appraisal and inspection of homes?—A. I think the answer is “yes”.

Q. Yes, you do not approve?—A. Yes, for one reason and one reason only, that competition always improves a service, and where loaning institutions were competing, builders have sometimes found it better to deal with one company than another, from the simple standpoint of service, promptness with advances and promptness with inspection, so a wall could be closed in and so on. When any service is centralized in one organization, there can be a danger, although we know that every effort will be made to see that it does not occur, of service not being up to the standards you achieve under competition.

Q. But has it not been your experience that you could not get loans for homes in small centres or outlying communities because lending institutions had no facilities for inspection within a reasonable distance?—A. I would say yes to answer that question from the standpoint of builders. Our association does not have too many builders in what I think you have in mind when you say “small centres or outlying communities”, so our association cannot speak very well on that subject.

The CHAIRMAN: Mr. Stewart?

Mr. APPLEWHAITE: May I ask one other question?

The CHAIRMAN: Yes.

By Mr. Applewhaite:

Q. Right at the top of page 2 of the brief it says, and I am skipping some unnecessary words: “. . . It is not likely that the life insurance companies, the principal lenders under the N.H.A., will be able to make more money available in 1954.” Do you mean by that more money in 1954 than in 1953? You do not mean they are not going to make any money available?—A. We are sure they are not. We are speaking relatively.

By Mr. Stewart:

Q. Mr. Fraser, would you agree that homes have been built under N.H.A. which otherwise would not have been built?—A. Oh yes.

Q. Have you any idea of the number which might be involved?—A. I am sorry, I would not like to answer that, Mr. Stewart, because I am not capable of answering it.

Q. I do not blame you, it might be a tricky one to find an answer to, but these homes have been built as a result of government assistance?—A. Most definitely.

Q. Would you infer from that that less homes would be built solely under private enterprise than have been today?—A. I am sorry, I did not hear you.

Q. Would it appear from that then, as it does to me that less homes would have been built under private enterprise?—A. If you mean private lending by institutions, because they are being built mainly under private enterprise, I would say yes.

Q. But you would prefer to see mortgage money administered only by private enterprise instead of by private enterprise and C.M.H.C.?—A. No, that statement must be a little misleading. When I say “administered” we are thinking of inspections and competition between private lending institutions.

Q. You will excuse me if I did not gather that from the sentence.

The CHAIRMAN: Where does that sentence appear in the brief, Mr. Stewart?

Mr. STEWART: It is in paragraph 6 about the fifth line down: "We would prefer to see money administered by private enterprise. . . ."

The WITNESS: Yes, we are referring mainly there to institutions which I have already mentioned in answer to the questions here.

By Mr. Stewart:

Q. You would prefer to see, in the matter of getting houses built in Canada, C.M.H.C. still very much in the picture?—A. Very much.

Q. You say you want to see the whole economy as much as possible free from government control. What controls did you have in mind?—A. Controlled selling prices, in the first place, where we desire a maximum mortgage. We are now going to have direct government inspection, not as a supervisory matter but as a direct control and also government approval of advances.

Q. Have you any idea what percentage of profit would be made on these houses where there is a maximum mortgage, the one you are talking of just now?—A. I think perhaps I have already ventured a little too far, since I am speaking for a large body comprising 600 builder members, in discussing profit margin. I would prefer that you let it rest where it is now, if you will, Mr. Stewart.

Q. Would you like to see insurance companies compelled to issue mortgages for 30 years? It is permissive now, but would you like to see it made mandatory? In other words, would you like some more government interference but not in the building industry?—A. Yes, I think that is what we have tried to say in the brief, that the question of amortization is quite important, and that we would like to see the regulations define amortization and provide for 30 years amortization under certain circumstances where normal rating of credit risks are taken into consideration.

Q. Would you agree, as a generalization, that this matter of government interference depends on whose ox is being gored?—A. Well—

Q. It is just a generalization, Mr. Chairman. How many members do you have in your association?—A. We have a total of approximately 1,000 members but there are about 600 builder members. The rest are supply, subtrades, and other associated activities.

Q. Have you any idea how many builders there would be in Canada? I refer to a builder as one who is constructing more than ten houses a year.—A. I am sorry, I do not.

Q. Then it makes it more difficult to pursue this line of questioning. What is your opinion of the increased efficiency in house building over the last 15 years?—A. Very substantial. More so over the last eight years.

Q. Can you give me any figures to substantiate that belief?—A. Sorry, I cannot.

Q. I shall take your word for it, although I have heard doubts cast upon the efficiency of the building industry in this country. Have you any idea how many prefabricated houses have been built in this country, as a percentage of the total houses built?—A. Not as a percentage, but in my opinion the prefabricated housing industry has not attained any great volume here, as it has in the States, although even in the U.S.A., as I recall it, they are attaining perhaps only six per cent of the market, but again I am quoting from memory.

Q. The figure is about five per cent. I think about 55,000 prefabricated houses were built last year in the United States. Would prefabrication not result in cheaper construction?—A. I would not care to answer that on behalf of the association. If you wish me to express a personal opinion, I am not sure that our market is big enough to support a well run prefabricated industry of a size where great economy would be effected.

Q. I take it you have no research department of your own?—A. I am sorry that we have not.

Q. You are dependent entirely on the government for whatever research is being done?—A. I would not restrict it to the government only. There are a great many supply organizations and manufacturers of building materials who have done, I believe, a lot of research, and a lot of it very good.

Q. Is there any attempt to correlate all these research activities? I mean, from your point of view?—A. We are trying to strengthen our own association to the point where they will be able to correlate their information and assist in producing a better house for less money.

The CHAIRMAN: Mr. Fleming.

Mr. FLEMING: Mr. Fraser, you indicated that you have a thousand members in your organization, of whom 600 are builders. Can you give the committee some idea of the extent to which you speak for the total Canadian house building industry, and indicate how many houses your members built, say, in 1953, if you have the figures?

The WITNESS: I will have to refer to our manager, Mr. Caufield Smith. Have you any data that would answer Mr. Fleming's question?

Mr. J. C. SMITH: No, we have not that data.

The CHAIRMAN: Could you hazard an answer?

Mr. FLEMING: Could you give us a percentage?

Mr. SMITH: I could perhaps explain that, of the 600 members, some are exceedingly large operators who might build 200 houses, at one end of the scale, whilst at the other end of the scale they might build perhaps half a dozen. So if we assume there are 300 builders with an average of 10 houses, we will have perhaps 3,000 houses.

Mr. PHILPOTT: Thirty thousand.

The CHAIRMAN: Would you like to talk it over?

Mr. SMITH: I would think, Mr. Chairman, 30,000 would be too high. 20,000 would be closer.

Mr. FLEMING: Your members built about one-fifth of the houses constructed in Canada last year, say?

Mr. SMITH: That would be a fair estimate.

The WITNESS: Mathematically that works out. I personally, think that with an average of 33 per builder, that might be very close.

By Mr. Fleming:

Q. Now, you spoke here in your brief in terms of widening the band, and no doubt you are already acquainted with the testimony given by Mr. Mansur in that respect in his earlier evidence. His view was that the enactment of this legislation might increase the band of available demand by between 5,000 and 15,000 in a full month period. Have you made any estimate in that regard, Mr. Fraser?—A. That is one of the great troubles with our industry, that estimates are very hard to make on a rational basis. The gross debt service, as far as we can see, under the new legislation, does not improve the situation at all, but the fact that there is a lower down payment in most cases would probably result in additional purchasers being able to acquire homes under the National Housing Act.

Q. I suppose that brings us back again to the question of what the interest rate may be in balancing that matter of the lower down payment and possibly raising the carrying charges if the rate is over $5\frac{1}{4}$ per cent?—A. Any increase in the interest rate raises the carrying charges and we would certainly like to see, as we have said, the lowest possible interest rate, naturally, on behalf

of the purchasers, but we are more concerned with the gross debt service ratio, which is the credit test of the man who purchases, and perhaps the single point which rules out more prospective purchasers—that is, prospective in our opinion—than any other feature of the Act.

Q. Are the activities of your builders carried on on a representative basis across Canada? That is to say, is the experience of your builders representative of all parts of Canada or are your builders located in large measure in the urban areas?—A. Our branches are in Victoria, Vancouver, Edmonton, Calgary, Saskatoon, an embryo branch which I don't believe is too active in Regina, Winnipeg, Windsor, Sarnia, London, Hamilton, Oshawa, Ottawa, Montreal and Kitchener. Did I mention Toronto?

The CHAIRMAN: You took it for granted.

By Mr. Fleming:

Q. Your members are largely located in cities?—A. Yes.

Q. Have your members had any experience with the direct lending operations of Central Mortgage and Housing Corporation?—A. Undoubtedly some have.

Q. Would it be a very significant experience in extent?—A. I don't think in relation to the total units built under N.H.A. the direct loans for homes for sale is a very big percentage. There would be the defence workers and a few loans perhaps in areas where lending institutions were not servicing.

Q. I take it you are not prepared to make any comment on experiences of members in the field on the direct lending operations of Central Mortgage?—A. No, I am not.

Q. I would like to ask you your opinion as to the effect on prices as a result of the enactment of this new legislation. What do you look for in general over the period of the next, say, eight or nine months, or the balance of 1954, on the level of house prices, as a result of the introduction of this legislation and the new scheme involved in it?—A. I do not know whether the legislation affects it or not. It might have an effect if it is delayed too long and we all enter the market, particularly, for example, in purchasing lumber, in the summer. The winter cut was not too large, as we understand it, and there could be a stiffening in lumber prices.

Q. I gather that was suggested on the first page.

The CHAIRMAN: The construction people will love you for that answer when they appear before us later this afternoon.

The WITNESS: We anticipate another round of demands for labour increases.

By Mr. Fleming:

Q. Do you attribute that to the introduction of the new scheme?—A. No.

Q. Let us try to isolate this if we can. I wanted to hear your opinion, assuming you have studied this question, as to what might be the effect on price levels in the house construction field of the introduction of the new scheme contemplated by this Act and the elimination of the old scheme of the joint loans.—A. I do not expect that it will result in higher prices because I do not anticipate that Central Mortgage and Housing Corporation and the lending institutions will see our total production expanded to too great an extent, and I really do not believe that merchant builders desire to over-build. And only if we attempted to produce more homes than our labour market and material market will stand would there be a stiffening in prices, and I do not think that is likely to happen.

Q. You do not look for any particular effect on the levels of prices and costs as a result of the introduction of this new scheme?—A. No, I would not say so.

Q. I beg your pardon?—A. I would say that there would not be an effect.

Q. What do you look for in the way of a rise in prices and costs attributable to those factors during the 1954 period as far as you can see?—A. In some localities I would say that competition amongst builders is becoming more keen and I would say that purchasers are becoming more selective. It will have the end result again in some selected communities of either the purchaser getting more house for his money or a reduction in prices. Certainly I expect prices—I am talking about sale prices of homes—to be maintained in the face of even some increases that we anticipate in wage rates.

Q. So far as construction materials are concerned, your fear is that the demand may be too largely concentrated at a particular season?—A. Yes.

Q. Apart from that, do you anticipate any movement either way, any substantial movement up or down in cost of materials to your members?—A. I have seen no reports in our national association which express any concern in that regard.

Q. You mentioned the possibility of a demand for wage increases. Have you had any indication, or do you anticipate any demand from labour in the building trades in that respect?—A. In our own area we know that there is one coming, because it was part of a two-year agreement. But I would have to answer you officially, no.

Q. You answer "no", but you leave an open end for things that might arise. I think we would agree that the rapidity with which you can construct your house has a good deal to do with keeping down the cost. It was emphasized by Central Mortgage and Housing in their statement that to shorten up the period of construction is a substantial factor in keeping down the cost—A. That is true provided your overhead remains fixed. If you build in a shorter period, the overhead factor alone is smaller and it results in greater efficiency through the actual smaller working time.

Q. And in the last year the trend was toward shortening the period of construction, was it not?—A. What was that again, please?

Q. I say that in the last couple of years in Canada the trend has been toward shortening the period of construction?—A. I do not believe there has been a trend to shorten it. Always the aim has been to build in the shortest possible time, and the only thing that might have interfered with it was the labour supply. A few years ago there was a shortage of skilled mechanics and the supplies of materials were not always available. For example, you might be ready to lath your house but there was no gyproc lath.

Q. I agree that improvement in the construction and supply situation has assisted to shorten this period, but you must be aware that Central Mortgage and Housing Corporation has estimated that the period required for house construction in Canada has been substantially reduced in the last two years. Has that not been the experience of your members?—A. I cannot honestly say that I would think it has been the experience of the majority of our members. There may be some who have become more efficient and have stepped up their operations. But speaking for our own organization, that certainly is not the case.

Q. Then I am afraid your experience is not typical of the situation described by Mr. Mansur in his reports, for he was clear both in his quarterly reviews and in his testimony to the committee on that point.—A. Mr. Mansur is much more capable of answering that question than perhaps any member of our organization, because Mr. Mansur has the advantage of more statistics which apply to national averages and which would show that.

Q. I shall not labour the point if you are not prepared to go further with it. But I am concerned about this matter of inspections. You have stressed some fear as a result of the centralization of inspections and particularly inspections in relation to advances, where you have got a straight building

loan. What is your expectation, in that respect, of the effect on the rapidity of construction and of the necessity of having those advances approved by inspectors from Central Mortgage and Housing Corporation?—A. We know that Central Mortgage and Housing Corporation are making every effort to build up a substantially larger organization in order to prepare themselves for this new legislation, and we have been assured that we will get good service. In our brief we are just trying to point out that there is a danger, and that we hope every step will be taken to eliminate it.

Q. Have your members in the last 12 months experienced a shortage of mortgage funds?—A. There are two problems which have faced builders over the last 2 years. The first problem is the lack of forward commitments. With the tightening up of mortgage funds it is often difficult for a builder with a good sized organization to find a lending institution willing to say to him: "Yes, you may have 50 commitments, or 100 commitments, and make your plans accordingly."

There has been a growing tendency, with the shortage of mortgage funds, to perhaps a higher degree of selection on the part of the life companies. They will say: "Well, we will issue 20 commitments, and when those are all sold, or partly sold to the extent of $\frac{2}{3}$, let us say, we will consider issuing another 20 commitments."

They do this perhaps as a precautionary device on their part. In some cases there has been perhaps a desire to cater to a larger group of builders with a smaller quantity of loans.

But the actual number of houses built this year would indicate—and when I say "this year" I mean in 1953—a good year so far as the total supply of mortgage funds is concerned. Perhaps slightly in excess of 100,000 units were built. But we have been concerned with the distribution of those commitments there is an indication that this year—disregarding the new legislation—the situation might prove to be even worse.

Q. Has your organization made any estimate or studied the extent of the backlog of housing needs in Canada?—A. Our organization has issued several statements to the effect that the estimated backlog is, I believe, 500,000.

Q. On what do you base that estimate?—A. I believe that Mr. Smith can tell you more than I can respecting that calculation.

Mr. J. C. SMITH: Mr. Chairman, the original basis was the estimate contained in the Curtis report which showed that there was a backlog of 310,000 houses which would have been built during the depression and the war years if construction had continued at 1929-30 rate. There was also the fact that we had an excess of new families formed over new house construction, causing the figures which we have before us at the moment.

Mr. FLEMING: We are aware of that estimate.

Mr. J. C. SMITH: In addition, there was a technical shortage every year of some 13,200 units which again was the figure arrived at by this Curtis report committee; so that when you added the two together, you get the total, I think, of 480,000 which, in round figures, amounts to 500,000 units.

Mr. FLEMING: I think we are familiar with the outline of that plan. You say that you base your estimate on the Curtis report estimates?

Mr. J. C. SMITH: We had to do so because there was no other material available.

By Mr. Fleming:

Q. In view of what you have said, Mr. Fraser, in the brief about research, do you feel that there has been any lack of attention given on the part of Central Mortgage and Housing to its responsibility respecting research and

the powers which it has in that regard under the present Act?—A. We definitely know that Central Mortgage and Housing have done a considerable amount of research work, but we do not believe that builders have been brought into any committees to discuss research problems and perhaps to conduct individual research in specific communities.

Q. Is your complaint then that Central Mortgage and Housing in whatever it has done in the research field has not sufficiently kept in touch with those engaged in the actual business of house construction and drawn upon their experience?—A. I would not approve of the word "complain", if I might be permitted to say that. We just suggest we might like to be drawn into the picture in the hope that we could help.

Q. I can appreciate your feeling in that respect. I am interested in knowing if you have anything to say about what has occurred up to the present time. Has there been any loss in the research thus far on the part of any firm in your association because of Central Mortgage and Housing Corporation failing to consult with you in the business of housing construction—to draw on their experience?—A. No, I don't think so. I would say that our idea in welcoming that research be investigated, with builders actually participating in it, is with an eye to the future rather than any criticism of the past.

By Mr. Cardin:

Q. Mr. Fraser, on page 3, paragraph 9 of your statement you say: "In order to cater to the large band of wage earners earning \$60 a week or over, there are four methods of approach". And there you enumerate four methods of approach, lowering the interest rates, etc. We have heard from several organizations about the same situation. There is one thing we have not heard very much about and that is the actual cost of construction. I believe that it would be a good idea if we could arrive at a method of reducing the costs of construction and thereby allow more people to get into housing. I was particularly interested in the matter raised by Mr. Applewhaite concerning the cost of land and I must say I was a little staggered by the figures that I obtained from Central Mortgage and Housing Corporation concerning the increase in the cost of serviced land within the period 1950-1953. When I speak of land I am speaking of serviced land including water, sewers and roads. For instance, in Vancouver where the average cost per foot frontage in 1950 was \$16.46, in 1953 it was \$37.17. In the Montreal area in 1950 the average cost per foot was \$19.73, and in 1953 was \$42.25. In Hamilton the average cost per foot in 1950 was \$17.12, and in 1953 it was \$20.70. Whereas in Winnipeg the average cost per foot of land in 1950 was \$13.71, and in 1953 it was only \$14.10. Now, I wonder whether your association has made any kind of a study as to a method of trying to put pressure on municipalities or such to sort of stabilize the cost of land and keep it from rising? I wonder if perhaps a study may have been made in the Winnipeg area to see what methods they could have to have only a \$1 increase in the cost of land, whereas in all the other municipalities it was almost double?—A. The association has not done a study. It might be interesting to see the result of such a study, but I am sure that Central Mortgage and Housing Corporation have complete data on that. As far as Winnipeg is concerned, from my visits to other western cities, it would appear that there is much more land available, and where there is a larger supply the price is usually more stable than where land where services can be obtained is in short supply as is true in most localities in Ontario.

Q. Do you not feel that it would be beneficial if your association would take an active interest in that and put on pressure and help Central Mortgage and Housing Corporation in arriving at something suitable?—A. We do.

Q. Do you think that your association would consider that?—A. Yes, we will definitely make a note of that.

Q. There is another question which is of extreme importance—and I do not feel that this committee has been illuminated on that question very much—that is the question of the increase in the construction material.

The CHAIRMAN: Increased cost, you mean?

Mr. CARDIN: Yes.

By Mr. Cardin:

Q. From the D.B.S. figures I managed to arrive at averages between the period 1926-1930 and the period 1946-1950 as to the cost of construction material and there I find there has been a percentage increase of about 88·4 per cent. Now, I wonder whether your association has made any study in that particular field and has taken any steps in order to avoid any large percentage increase in costs in that field. I think it would be in the best interests.—A. We have not taken any steps, but it certainly would be in the interests to do so. As I said, our organization is being strengthened gradually and we hope that we will have enough interested members in our organization to finance such a study which might be quite an involved thing. I personally think that Central Mortgage and Housing Corporation is an excellent agency to do just that.

Q. Then it would be possible to work hand in hand?—A. Yes.

Q. There also are other figures that have surprised me considerably, and perhaps you can explain some reason for them. I refer to the percentage increase in the same period I mentioned before, 1926-1930 to 1946-1950, in different materials. For instance, cement and gravel, an increase of 12·4; paint and glass, 15·3; lath and plaster, about 17; brick and tile, only 17 per cent increase; electrical fixtures, 43 per cent. Then you come into plumbing and heating, 15 per cent; roofing materials, 79 per cent; lumber products, 157·2 per cent.

Now, if it were possible to see if there was anything that could be done in reducing the prices or levelling them out somehow, then I think it would be possible to have more people in a position to purchase homes?—A. I certainly am not an expert on analysing and comparing those figures, but picking out the example of the discrepancy between the increase in lumber and the increase in cement it is due to the very much higher labour content in cutting a tree, hauling it out, dressing the lumber and placing it on the site. In the case of cement it is mostly a mechanical operation.

Q. Has your association made a study of that?—A. No.

The CHAIRMAN: On page 154 of the evidence, Mr. Thatcher asked this question:

Statements have been made that labour costs in the housing field are getting so high that if they go much higher there will be a danger that they would price themselves out of the market. Do you think there is any validity to that statement or are we getting anywhere near that position?—A. Once again, Mr. Thatcher, I think the wage rate is just one factor. I suggest to you there was less actual labour cost in a house built in 1953 than there was labour cost in a house built in 1951, notwithstanding the fact that the wage rates were higher in 1953 than in 1951.

By Mr. Fleming:

Q. To clear up the last answer, are you speaking absolutely or relatively?—A. What I mean by that, Mr. Fleming, is, I believe the increased productivity has outrun the increase in the hourly wage rate.

Mr. CANNON: That was for on site labour costs, not for building materials.

The CHAIRMAN: That is right.

Mr. HELLYER: That was for on site labour cost and not for building material components.

The CHAIRMAN: Do you agree with that, Mr. Fraser?

The WITNESS: I was interested in that statement. I certainly know of some building organizations where obviously if efficiency had not been increased to overcome the rather substantial increases in wage rates when we would not be able to sell homes at controlled selling prices where the valuations are made on the Fall of 1950 basis.

By Mr. Cardin:

Q. There is another thing you might be able to help us with. I remember at one time I was interested in manufacturing and among other things we made plumbing fixtures. There was a piece of plumbing, the construction manufacturing cost of which would be somewhere around \$4, and by the time the builder or purchaser had it retail, it was somewhere around \$12. I wonder whether your association has made any study in that field. There seems to be a terrible discrepancy between, for instance, the actual manufacturing cost and the final price the home owner has to pay for it. In the field of plumbing, I think particularly, there has been a tremendous increase. I do not know what the reason for it is, but you cannot do anything with regard to plumbing where the prices do not sound almost exorbitant?—A. The association has not made a study of that, and you are pretty well beyond my field. I presume you are referring to various middlemen, jobbers, wholesalers and so on, and I am afraid you are beyond my field.

Q. But you will admit it has a direct bearing on the construction of houses?—A. Any cost that is inherent in a material when delivered on the site certainly has an effect.

Q. From what level do your builders buy it? Do they buy directly from the manufacturer or retailer or middleman, or where do they get their supplies?—A. It varies a great deal. I would say in a very high percentage of houses built in Canada, in particular regard to plumbing materials with which you are concerned, the contracts are made with a plumbing subcontractor who buys from a plumbing supply house. Normally, the builder does not buy plumbing fixtures directly.

Mr. FOLLWELL: Is it not true that he buys wherever he can buy the cheapest at all times?

The WITNESS: A sensible builder certainly does.

By Mr. Cardin:

Q. Would a subcontractor buy from companies like Crane?—A. Usually.

The CHAIRMAN: Are you finished, Mr. Cardin?

By Mr. Cardin:

Q. No. There is also another question which comes to my mind and it is this: we have been told that the lending value by Central Mortgage and Housing is based on an estimated cost of construction made by Central Mortgage and the profit to be derived by a builder is 5 per cent. Now, if they had certain houses established at a certain cost that would be all right,

but apparently that is quite difficult to provide. The cost would be different from one part of the country to another. The reason I am bringing this out and the reason I am so much concerned, is that there are several contractors who, after having had just a few contracts with Central Mortgage, seem to have derived a considerable profit from the deal. Now, there may be some reason for it apparently, and maybe in my mind, the average cost or estimates are too high, but it does seem high, whereas in another part of the country they may be all right, but I do know there are several contractors who really took much more than a reasonable profit out of the deal, and I was wondering whether or not it would be wise for your association to see if they could not tie down in the different areas the exact cost they would have in a particular area rather than try to work out the average for the whole country which does not seem to work out very well. I am not against reasonable profit for the contractor. What I am against is having an unreasonable profit at the expense of the prospective home owners?—A. I think as an association we would agree that we do not like to see unreasonable profits.

Mr. FOLLWELL: Of course that is a matter of opinion as to what is an unreasonable profit.

The WITNESS: I would like to go on the record as saying that we as builders, are subjected to a great deal of criticism because of the so-called excessive profits in our industry. We object strenuously. Undoubtedly you can find examples of excessive profits but as a general statement we object very strenuously to it. Considering the risks involved, the overall expenditure, the amount of working capital necessary, and so forth, we do not think we are making a higher profit than any other industry operating in a free enterprise system.

Mr. CARDIN: As an average, perhaps, but what I am trying to come to is a method of localizing the thing to figure out the averages in the smaller areas so you would be able to arrive at something more equitable.

The WITNESS: We have had a great many of our members complain to Central Mortgage and Housing Corporation about ceiling selling prices but I think I speak for the majority when I say that on the whole the effort in establishing controlled selling prices has been quite fair to the purchaser, and on the whole, fair to the builder.

The CHAIRMAN: Would you mind breaking off, Mr. Cardin? Mr. Cameron? Please shorten your questions gentlemen, I have a long list.

By Mr. Cameron:

Q. On page 2 of your brief, you have this to say:

We can understand Central Mortgage and Housing Corporation's desire to retain full control of valuations and compliance inspections under this new legislation, but we should like to point out that to some extent competition is being removed from the standpoint of service to builders and borrowers.

Now, could you give us an explanation of that? In what way is competition being removed on account of inspections by Central Mortgage and Housing Corporation?—A. I believe it was Mr. Stewart who covered that briefly and I will clarify it again. From the standpoint of service we are thinking of the speed of inspections and the speed of advances, and the processing of loans where, to put it in more concrete form, one lending institution might come to a builder and say, "We will show you real service, whereas so and so is only giving you half-hearted service," and that spurs on all the companies and inspectors and so on to do a better job because one company is competing with another in the business of loaning.

Q. It was competition between the lending institutions you have in mind?
—A. Yes.

Q. You would prefer then to have the institutions carry out the projects, or private lending institutions, rather than C.M.H.C.?—A. Yes, I would say we would.

Q. On that ground alone?—A. Yes.

Q. You feel that because of competing with each other they would tend to do it more speedily?—A. We think the chances are that it would tend to provide better service. We do not object to quality inspections, and we think Central Mortgage and Housing Corporation will provide good inspections, and we think that our member builders are quite anxious to build to the standards as specified.

Q. In view of the evidence, which I gather you have read, before the committee, do you really believe there is competition among lending institutions to be able to lend money on these mortgages?

Mr. HUNTER: There is no question about it.

The WITNESS: I believe that for—how shall we put it “good builders”, there is always competition among them for business in that lending institutions will desire to deal with a builder who will give the organization trouble-free loans and minimum worry from financial disaster which might occur with a weak builder, and so on.

By Mr. Cameron:

Q. Do you really think a builder such as you describe will be able to pick and choose among the lending institutions and practically drive a bargain with them with regard to inspection and so on?—A. I would not say “to drive a bargain.”

The CHAIRMAN: He says they will receive the attention of a good customer.

By Mr. Cameron:

Q. But the point I want to get is this: I gather he feels there would be active competition among lending institutions to loan on these mortgages. I have not seen any evidence of that before this committee.—A. May I answer that from another direction? We feel that there is a great danger that if inspections are centralized in what is in effect a government body, there might be a danger, particularly at the lower levels, of builders not being able to demand the services to which they are entitled, because they have no control over the organization other than through representations to officials of Central Mortgage or ultimately to the members who represent us and who administer the National Housing Act.

Q. Have you had experience of that in the past with loans?—A. I would say there have been builders who have been dissatisfied with the efforts of some Central Mortgage and Housing Corporation officials, sometimes justified, sometimes not justified. On the other hand, I should make it clear that there have been builders who have been completely dissatisfied with the lending institution, inspectors and valuers, sometimes justified, sometimes not justified. When you are dealing with a lending institution you have the privilege of saying, “I will go to X Company, who I know will give me better service.” When you are dealing with Central Mortgage and Housing Corporation, you are dealing with Central Mortgage and Housing Corporation.

Q. The reason I am dealing with this subject of inspections is that apparently that did not occur to you when you were drawing up this brief. That is not listed among your objections to Central Mortgage and Housing Corporation.—A. I am not objecting. I am just cautioning that we would like to

make sure that we would get a co-operative service, and I have every reason to anticipate that we shall, but we know that Central Mortgage and Housing Corporation is faced with a fairly large task in building up a larger organization at a time when skilled manpower is difficult to obtain. We merely insert that as a word of caution and not as a criticism.

Q. I would point out to you again that that apparently did not occur to you when you drew up this brief. The only matters about which you were concerned were the matters of regulations and their interpretation by inspectors.—A. May we apologize if our brief is not as clear as it should be?

Q. One final question. Would it be wrong to suggest, Mr. Fraser, that you have also in mind, when you say that you would prefer that the private lending institutions should be allowed to do the inspections the fact that they have not the facilities for doing such rigid inspections as C.M.H.C.? —A. I would never go on record as agreeing to that.

By Mr. Fraser (Peterborough):

Q. I have a few questions. One of the members a few months ago asked regarding profits. He mentioned 20 per cent. Would you care to say what the trend of profits has been in dollars or percentages from 1940 to the present time?—A. Our association has no records, and as a builder my experience does not go that far back.

Q. Back to 1945, say?—A. I really am not capable of answering that question.

Q. In your brief you mentioned the fact that, referring to the bill, it does not cater to a very wide band of population. I take it from that that you mean those in the lower income groups. Has your association made any study of how lower cost houses could be built, and houses perhaps not as elaborate as some of these \$10,000 and \$12,000 ones?—A. Generally speaking, Central Mortgage and Housing Corporation under the National Housing Act have raised the standards of housing. As to how much could be taken out of a house and still have the desired standard of accommodation, that is a subject for great discussion. I believe it was in the evidence earlier that possibly \$1,000 could be taken out of a house and the opinion was expressed that we would not desire to make N.H.A. loans on the type of house which would result. Some of the builders feel that some of the features which are being introduced as regulations and standards are increasing the cost beyond what they should be, but not to any substantial figure such as \$1,000, and always it is subject to a great divergence of opinion.

Q. You mention in your brief that perhaps in order to help these people the regulations should be made such as to increase the debt service to 27 per cent of income. Do you think that would be good for the purchaser of a house or for the industry itself?—A. I am sorry that you have seen fit to pick out the 27 per cent, because we feel that the 25 per cent is the figure which should be substituted for 23 per cent, and 27 per cent might be considered for purchasers where there are special circumstances. Most certainly it would be good for the industry, but we do not think that it would be bad for the purchaser, if that is what you mean, provided the credit risk is on a sound basis. I believe Mr. Mansur will be able to tell you that there have been purchasers approved with a gross debt service higher than 23 per cent, and they have proved to be quite satisfactory.

Q. In your brief, on page 2, you have this in connection with lending institutions:

In this connection, we should like to point out that in the past regulations have, in many cases, been in the form of recommendations and not always have the lending institutions seen fit to comply with

the suggestions and recommendations of Central Mortgage and Housing Corporation. For example, the present National Housing Act makes provisions for 25- and 30-year amortizations but most lending institutions have adhered very rigidly to a 20-year amortization and, in some cases, to an even shorter period.

Now, my question is this: Do you feel that those regulations could be made stronger and made so that they would have to adhere to them?—A. Yes, I believe I have already said “Yes” to that question.

Q. In that case, do you not feel that the lending institutions then would tighten up on the money? Would it mean less money to the building industry?—A. The lending institutions, like any free enterprise, are going to object to increased control. Whether it would result in less lending under the N.H.A., I am sure I could not answer that.

Q. Inspection has been mentioned in more than one instance. Under the inspection of Central Mortgage and Housing Corporation—and Mr. Mansur has said this—that they would inspect the houses but it would be up to the owner to do his own inspecting also to see that everything is put into the house. In other words, under this Act according not only to yourself but the other people who seemed to think the same thing, the builder is protected, the lender is insured against loss, but the man who purchases that home is not properly protected. Now, do you not think that there should be some regulation whereby the builder is responsible for any defect or anything that is left out of that home under the Central Mortgage and Housing Corporation? Mr. Mansur said in giving his answer to me that it was up to the man who was building his home to pick out a good builder. Now, what do you think in regard to these inspections?—A. I think that on the whole among the builders under N.H.A., there are very few cases for justifiable complaint by the purchasers. When Central Mortgage and Housing say on their forms and in the evidence given before this committee that it is up to the purchaser to make sure that he has got value, I think they are saying it from a legal standpoint. And I think, as I have said earlier, that Central Mortgage has done a lot to raise the standards and to help to educate builders. I think the market itself demands that a builder do a good job, and I do not believe there is need in the Act for ‘teeth’ such as you have suggested, Mr. Fraser.

Q. Thank you.

The CHAIRMAN: Mr. McIlraith.

By Mr. McIlraith:

Q. Mr. Fraser, you spoke of your association having 600 home builder members. Can you tell me how many of those members are building houses for sale, that is, how many are merchant builders?—A. I would say practically all of them are building for sale. There certainly must be some, however, who are building under contract. Perhaps Mr. Mansur could answer the question better than I. I do think however that most N.H.A. building is done for sale.

Q. What I was trying to get at is this: the 600 you represent here today are practically all merchant builders, building houses for sale?—A. Yes.

Q. You spoke about the N.H.A. having raised the standards for housing in Canada. I take it that you approve of that, do you?—A. Yes, we do.

Q. You were questioned about the maximum sale price provision in the legislation, and I understood you to say that you approved of the retention of the provision. Is that right?—A. I thought we said—we might have said

that we approved it—but what we mean to say is that we can understand the reason for it and as an association we would hate to see the ceiling removed in an area where there was still a great shortage and to have prices sky rocket because it would hurt the whole industry if that were to happen.

Q. Yes. Now, do you believe that this maximum sale price is always a ceiling? What is bothering me is this: I believe that sometimes it is a floor price in fact?—A. That opinion has been expressed, and I daresay you could find examples where it might be a floor. But I have no evidence to support it.

Q. You say you have no evidence to support it. You would not believe then that it is a general condition at all?—A. It certainly is not a general condition.

Q. Now, coming back to this matter of your desire for competition in the inspection services, you explained your reason for wanting that competition. But suppose we got competition in that service provided by the private lenders inspection services carried out to the point where it might mean careless inspection in order to get business, or in order to hold the business of a builder? What about that?—A. That would be a bad situation for the industry.

Q. And how would you protect against that, if we adopted your suggestion of having private inspections?—A. I think our builders generally are becoming more and more cognizant of the need for good building and for adhering to the N.H.A. standards, and I do not believe that the great majority of our members would take advantage of a lax inspection.

Q. That applies to your members but there are a great many builders who are not members of your association. I take it from the previous evidence that your association represents about 25 per cent of the houses built each year?—A. We would say that our association members are typical of the industry.

Q. You are suggesting in your brief terms that are not presently acceptable to the lenders. I am wondering about whether or not your builders would be willing to stay in the covenant on these mortgages?—A. That question has already been put to us and I would say “no”.

Q. You are not willing to stay on the covenant?—A. No.

Q. But you are willing to have the lenders forced to do things which they may not want to do?—A. Well, I think there are a great many lenders who would say that there are many features of the N.H.A. which they do not like but with which they comply. I can see no reason why the builder should be paying to protect the lender, while our government is underwriting the insurance. I can see no reason why the builder at his risk should have to participate in that.

Q. Yes. My point was that you are suggesting in your brief that the lender should be compelled to do things that are not presently acceptable to him. And what was bothering me was that if you make that suggestion in some part of your brief, why are you not willing to stay on the covenant which obviously is not acceptable to the builders?—A. I believe my answer to that would be this. It is in the evidence that under N.H.A. and under the old D.H.A. which preceded it, there were some companies who might have thought that it was a good idea but there were a great many more who hesitated to see high percentage loans. And I think you have had evidence as well that lending institutions generally and traditionally would prefer to see more conservative lending. That means they are doing things constantly which they might not otherwise wish to do.

Q. Under this legislation you will be getting an insured loan in return while they are getting the insured provision on their loan?—A. I must let the companies speak for themselves on that.

Q. You are arguing that the members should have a freedom of choice in making a loan?—A. Let me think that one out. You say I agree that the lenders should have what?

Q. Freedom of choice in making a loan?—A. Yes, I would think they should.

Q. They are getting insurance protection under this legislation. Do you not think that Central Mortgage and Housing pretty well control that situation in return for the insurance?—A. The way it has always worked up to now was that if a prospective borrower needed to have a joint loan and nobody was interested in giving it, then it was possible for Central Mortgage and Housing Corporation to grant a direct loan, and I understand that provision is still in Bill 102.

Q. Turning now to one question on research: Do you know if the research division of the National Research Council has an advisory committee on that subject?—A. Yes, they have.

Q. Are you a member of that committee? Or is your association a member of it?—A. We have had a sad experience to report. When the new building standards were being formulated by a committee—I am not sure of the exact terminology of it—but one of the National Research Council Committees sent our association an invitation to participate, when it was in a very weakened state, and it became buried. Therefore, no constructive criticism was forthcoming from our association.

Q. Now that your association is in better condition have you applied to the National Research Council to have a representative of your association added to that committee?—A. Yes.

Q. When was that done?—A. Mr. Smith advises me it was done in January and it is up to the council to accept or decline in March.

Q. So that the matter is now pending?—A. Yes.

Q. It may well be that it was through some unfortunate circumstance within your own association that you were not making the full contribution you were capable of making in the research field?—A. We are certainly not blameless.

Q. Is that right?—A. Yes.

By Mr. Philpott:

Q. Mr. Fraser, do you suggest that there might develop a shortage of B.C. lumber—that because of the short cut this winter there may be a temporary shortage of B.C. lumber?—A. I did not refer to B.C. lumber specifically; I was not referring to that.

Q. Lumber. There might develop a shortage of lumber this spring. Is that right?—A. Let me re-phrase it. What I suggested was there has been a smaller winter cut this year than in previous years in the Ontario northland and the sudden impact of orders in the north might result in higher prices because there is no restriction on the price of lumber.

Q. You also suggested a sudden buying impetus that will develop, and also that new wage demands might develop this year in the construction industry?—A. Yes.

Q. Am I right in saying that new wage demands never develop in any industry unless the industry is in a buoyant condition; never in a declining, but always in an ascending market?—A. I am not an economist, Mr. Philpott but certainly history would seem to suggest that.

Q. In other words you anticipate a good year for building once we get this thing straightened away?—A. Yes. We are worried that we will not get it straightened away early enough.

Q. About this hiatus you mentioned on page 2. The present National Housing Act is still in effect?—A. Yes.

Q. Until this new Act goes into effect we still have this old Act?—A. Yes.

Q. And the mortgage companies have the facilities for making loans. Who is holding up the loans?—A. There are a great many facets to that question, but I will do my best to answer it, and I am again quoting opinion. There was a great flurry of loan commitments offered to builders, not in quantities sufficient for the total year, but in quantities to produce some houses certainly, we believe, so as to take advantage of the present effective rate of $5\frac{1}{4}$ per cent to lending companies in the light of the fact that the new rate might be less and might not be attractive to the lending institutions. Also purchasers have become aware of the possibilities of this new legislation, and the second point is that we believe there are a great many—I should not say a great many—there are some companies who have committed a good percentage of their loans on the old basis, and thirdly, a great many builders have hesitated in accepting these commitments because they are worried that their houses might not be as attractive as those of someone who is able to carry his overhead and await the new legislation. Central Mortgage and Housing Corporation we believe imposed a 30 days regulation on starts which would mean if a lending institution were to offer a builder 20 commitments he would have to start those within 30 days, and that is sometimes difficult in the winter. The obvious reason for that was to cut down building while awaiting the new regulations.

Q. When we get this new Act into effect there is no reason why things should not go ahead pretty rapidly?—A. The only thing is I believe if the banks do enter in this they will have to put some machinery in motion, although we believe that Central Mortgage and Housing are quite well prepared for it.

Q. There was one other point in your evidence where you suggested that the purchasers of these new homes under this new Act would move out of these larger and older homes which the lower income people would not be able to afford. It has been my own experience, thinking of the families I knew in my own constituency of Vancouver, that I do not think that is a typical observation. I think that young married couples buy a small home perhaps when they are first married and then turn it in on a bigger one later.—A. I do not recall giving that evidence.

Q. It is in the brief.—A. Older larger homes?

Q. Older homes.—A. I do not believe the word "larger" is mentioned and certainly the normal trend is for a family to grow out of a smaller home and desire to buy a larger one or a more modern one.

Q. That is right. Should we not be clear on this one point, that every new home which is built in Canada regardless of whom it is built for makes one extra home for somebody else because the man has to move into the new home from another home?—A. It makes some accommodation available. It may only make one room available because of the doubling up.

Q. The most serious objection you seem to have about this Act is that it does not cater enough to low income people, but I am surprised to see in your brief that you say nothing about section 36 of the Act which is still on the books which deals with subsidized rental problems. It is the old section 35, where there is an unlimited amount of money available for very large projects. Is your association agreed that it is a good thing for your association and everybody else to promote these things all over the country wherever we can?—A. We have gone on record as saying that we believe there is a place for

housing under section 35, but we very vigorously oppose that part of the Act when it interferes with those who are able to, and should, purchase a home of their own. We feel that any housing built under section 35 should cater to the very large proportion of our population who cannot afford to purchase a home of their own.

Q. You are not trying to block that legislation when it caters to people not in a position to build and, therefore, when it serves one section of the country you think it is a good thing to that extent?

The CHAIRMAN: What he says, is they are not promoting it. Mr. Fraser, Mr. Hanna, Mr. Johnston, and Mr. Hellyer; one question or two at the most.

By Mr. Fraser:

Q. I notice in answering a question by Mr. Fleming you indicated that your association has no branch east of Montreal?—A. Yes.

Q. Does that mean your association has no experience of conditions in the Maritime provinces and Newfoundland?—A. None whatever.

Q. Then I take it any evidence offered in your brief or in your statements has no application to conditions there?—A. They might have, but we do not know.

Q. No necessary application?—A. No.

By Mr. Hanna:

Q. Mr. Chairman, in view of the new materials in house building and new improved labour techniques, I am still trying to pin down the cause of increased cost of housing. I was very interested in the figures given by Mr. Cardin. I would like to ask Mr. Fraser if the statement is correct, and it appears to be well substantiated, that increased labour productivity has outrun or at least caught up with increased wages, what then is the cause of the increase in the cost of housing?—A. That is only in the last 18 months or 2 years.

Q. How does that increase the cost in the last 2 years?—A. Our controlled selling prices are the same now in most respects as they were 2 years ago.

Q. What do you say the increased cost in labour costs have been in the last 10 years?—A. My memory is not good enough, but I am sure there will be statistics on that.

Q. I think that Mr. Cardin had the statistics of the increased labour costs.

Mr. CARDIN: I have it for the period between 1926-1930 as compared with 1946-1950.

Mr. HANNA: A 20-year period.

Mr. CARDIN: Yes. An increase of 55.3 per cent.

By Mr. Hanna:

Q. I think you also gave the figure that the cost of homes in the same period increased 88 per cent. What in your opinion is the cause of that increase?—A. Are we comparing an 88 per cent increase in the selling price with a 55 per cent increase in labour?

Q. Yes.—A. Then there would be material costs. The builders' overhead is increased because of office staff, it takes more people to run a building organization now.

Q. Do you not get a saving on mass production?—A. Yes, there definitely is.

Q. Would that not tend to reduce the increase in overhead? I am suggesting it would reduce it.—A. I feel I am getting in just a little deeply here. I think that is a problem that would require careful analysis or statistics and I do not care to make an offhand statement which might not be really accurate.

Q. This is something which came to my own mind because Mr. Fraser is a builder and I was hoping he would have these answers for us.—A. I do not like to give what might appear to be a facetious answer, but most builders have been so busy with their own on-site problems that an overall analysis has not been feasible, but we hope that our national association will become strong enough and have a large enough staff that we will be able to do something in that branch of housing.

Q. One question more. For the benefit of many members who may be, like myself, inexperienced in this field, we would like an answer to that question. We are all looking for the answer to that question. Where can it be found? I was told it could be found here?—A. I am not sure that the housing situation is any different from any other commodities, whether it be automobiles, television sets or anything else. They have all increased in prices in relation to what they were ten years ago, and I do not think that the housing field is out of line.

Q. Television is out of the question in this because it is so recent. Would you say the cost of automobiles has increased in the same proportion as the cost of housing in the last 10 years?—A. I have no statistics to offer you on that, but the only thing which pops into my mind is that the automobile industry is perhaps very highly mechanized and works on the order of an assembly line. Perhaps save for labour rates and increased material costs the housing industry will itself become somewhat more of a mechanized industry, in the nature of a housing assembly line, however it is a long way from being mechanized to the extent of the automobile industry.

The CHAIRMAN: I think Mr. Hanna has in mind what some of the other members must have in mind. Do you think that in your industry, having reference to the sources of supply, there are some pretty tight combines operating? That is what Mr. Hanna is leading up to. I thought you might as well have it direct?

Mr. HANNA: It is a good question.

The CHAIRMAN: I mean price combines?

The WITNESS: I do not know whether I should answer that.

By Mr. Hanna:

Q. May I just ask one more question? I notice in the housing projects which are being erected across Canada, that there are many new materials being used. You see a composition sheeting being used which must obviously be much faster, and you have the same thing in sheets of ready-made plaster, and that surely must bring about a decrease in the cost of that particular operation? Would you say that is so?—A. Not always. Sometimes the material produces a better result, but might be at a higher cost so the net result does not always mean a decrease in the cost. In other words, new products are often better and in some cases even easier to apply, but the end cost is sometimes more.

Q. May I ask one more question? Perhaps Mr. Fraser will kindly give us his opinion as to what the main reason is for the increase in the cost of houses in the past ten-year period? What is the main reason?—A. I would not care to define a main reason for the increased cost. I think it is just that the general economy is on an upward trend.

The CHAIRMAN: Mr. Johnston?

Mr. JOHNSTON: Are they coming back after 3.30?

The CHAIRMAN: No, we have another group at 3.30. I am sorry, but the questioning today is a little more extensive than I had anticipated.

Mr. JOHNSTON: I will try and hold myself down. Under the Housing Act as it now stands, and under the new bill, contractors will be permitted to construct houses en masse or individually, will they not?

The WITNESS: Oh, yes.

By Mr. Johnston:

Q. Which do you prefer as a contractor, to build houses in a group of ten and sell them after they are completed or have the individuals own them themselves and have you build them?—A. You addressed that to me individually, I believe, and I would say "Yes", that most builders would prefer to build on "spec" and sell at the earliest possible stage, and would prefer not to build on contract.

Q. To build the house yourselves and then sell them to the owners afterwards. I think that would be general of the industry. A. It would be of the low cost industry. If you start putting in special features, the costs are excessive.

Q. I am speaking of the average.—A. Yes.

Q. Why would you do that?—A. Greater economy.

Q. In what way?—A. In the first place, you have a standardized operation. It is hard to pick an example, but if one owner wanted a door swinging in and another wanted a door swinging out, and one wanted birch doors and another wanted fir doors, and so on, you would have a lot of construction which would require special attention.

Q. Those are details in the specifications?—A. If you have a project of 100 houses and have to vary each house, particularly with regard to the interior, to suit the individual, you would have a lot of special situations, and I doubt whether you could operate under controlled selling prices under those circumstances.

Q. Would mass building result in better co-operation, shall we say, from the loan companies?—A. I do not think that necessarily follows.

Q. Let me come back to the inspection, because it goes along this line. I understand that you have some objection to having the Central Mortgage and Housing Corporation carry out the inspection rather than having the inspectors from the loan companies doing the inspection; is that right?—A. I should make it clearer that under existing regulations as of today, Central Mortgage and Housing Corporation are also inspecting, as well as the lending institutions.

Q. I know that.—A. And I tried to phrase it so that I did not say I was objecting. I tried to insert a word of caution that we hoped that we would get good services and that we would not have to use the word that Mr. Mansur mentioned, an "autocratic" attitude, where the inspectors are inclined to, shall we say, distrust every builder and to oppose regulations and standards which might not be in the book but which are an interpretation 'in between the lines'. We hope that the new standards are rigid. Our members, I am pleased to say, have been given an opportunity to study them—and we hope they will be thrashed out before they are printed and there will be no room for differences of opinion between the builders and the on-site inspectors.

Q. You said the inspectors supplied by the loan companies are not as meticulous in this regard as inspectors from the C.M.H.C.? I think that would be a fair inference.

The CHAIRMAN: Please don't make inferences. Ask the question.

Mr. JOHNSTON: I am asking him to give the answer to it.

The WITNESS: I would not say, "They have not been as meticulous", as a general statement. I would say that the lending institutions' inspectors might

be in some cases more prepared to sit down with the builder and try to arrive at a fair interpretation rather than have, let us say, a Central Mortgage and Housing Corporation inspector dictate an absolute statement of fact and that is that. I do not care to get into a long discussion on this, but there are weaknesses in every organization, whether it be lending institutions, Central Mortgage and Housing Corporation, or builders. We believe that, generally speaking, builders are attaining a position of respect more and more, but there is a general attitude of suspicion—I think that is the best way to put it—and we have had and can state experiences, not experiences as a majority but isolated cases, where we feel that government employees have overstepped the mark of authority. I say and I repeat that it is not a general statement, but it could happen. With a rapidly expanding organization and with a greatly increased force of inspectors—we do not know what training they will have—but the situation could work into a position of hardship for the builder and we are merely inserting a word of caution. We have already been assured that the new system will work out smoothly, but we reserve our right to insert that word of caution. Do I make myself clear?

By Mr. Johnston:

Q. The point that bothers me is that I cannot understand the attitude that the builders are taking in this regard with respect to the inspectors from Central Mortgage and Housing Corporation. The only thing that they could argue with them on is whether or not the house was being built according to the plans and specifications. They have no authority to go beyond that. And if the builders is building according to the plans and specifications, then what possible objection could there be from Central Mortgage and Housing Corporation inspectors?—A. The present standard booklet has been revised many times—I do not know how many—and I think there is room for interpretation in some sections of the standards booklet. The specifications and plans which are submitted to Central Mortgage do not always comprise detailed specifications down to the last nail, and reference is made always to the fact that the builder must adhere to the standards booklet. There are sections where misunderstandings have arisen and which are not entirely clear in the present standards booklet and that is why the book is being revised, I believe.

Q. Would it not be better to have your association co-operate or work with Central Mortgage and Housing Corporation and have a set of building codes drawn up such as would meet your combined requirements, and then one inspector from Central Mortgage and Housing Corporation could see to it that the code was carried out? Would that not settle your objection entirely?—A. It is already mentioned in the brief.

Q. And you would agree?—A. We are examining the present standards and we will have an opportunity either at the end of this week or at the beginning of next week to sit down with Central Mortgage officials and we have every reason to anticipate that we will arrive at standards which will be satisfactory to both parties. In any event, once it is decided, that is it.

Q. And that having taken place, you could have no objection to there being but one inspector from Central Mortgage?—A. Yes. I would say that I would still want to reserve the right to insert a word of caution.

Q. I do not think we should shorten it too much.

The CHAIRMAN: No. Shorten the number of words but answer in full.

Mr. JOHNSTON: Yes.

The WITNESS: Where was I?

The CHAIRMAN: You were going to shorten it.

Mr. HELLYER: Just tell him that you stand by what you said.

The WITNESS: I think we have already gone over the question thoroughly that we want service, and we think there is also an opportunity for the inspectors to be of the type with whom we can sit down and discuss our problems as in the case of lending institution inspectors. We always have recourse to higher authority, but this might mean delay. I am simply trying to direct these opinions to Mr. Mansur and his officials so that they will have a thorough understanding, as far as authority of their inspectors and understanding of the new standards are concerned.

By Mr. Johnston:

Q. Once this cooperation has taken place between the two of you, your building association and Central Mortgage and Housing Corporation, and you have arrived at a satisfactory building code, would not the Central Mortgage and Housing Corporation inspectors then be in a better position, with all their building experience behind them, to make a better and more satisfactory inspection rather than an inspector from a loan company? The loan company inspector would be mainly concerned in seeing that their financial equity is protected rather than in seeing that the house was being built according to its plans and specifications?—A. I do not know about the building experience of Central Mortgage and Housing Corporation inspectors, but I have every reason to believe that the system will work quite well.

Q. But it would be better if you have financial inspectors provided as well?—A. I would not say that.

Q. That is all.

The CHAIRMAN: Mr. Hellyer.

By Mr. Hellyer:

Q. Mr. Chairman, the witness did not answer the question about combines in the building supply industry. I have two or three brief questions. The last time that brick prices went up, did the prices from the various brick suppliers go up about the same amount and at about the same time having regard to the same quality of brick?—A. Yes, in our limited experience.

Q. Will you tell me if when the price of gyproc laths went up the price went up approximately the same amount from various manufacturers and suppliers at approximately the same time?—A. Frankly I am not familiar with the subject because we only buy from one source.

Q. And the last time that the price of cement went up, did it go up approximately the same amount from the various manufacturers and suppliers and at about the same time?—A. Cement prices are invariably standardized.

Q. The last time the price of cement block went up, did it go up approximately the same amount among various manufacturers at approximately the same time?—A. We have found some competition among block manufacturers but generally speaking the price has been maintained at a uniform level.

Q. Do you think all these circumstances are mere coincidence?—A. I do not think I should have to answer that question.

Mr. HELLYER: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Follwell?

By Mr. Follwell:

Q. I have one or two questions I want to ask the witness. We are endeavouring to secure homes for the lower income group. We have had several questions asked about the lower income group and have received some similar answers. I would like to ask you what, in the opinion of your association, constitutes the lower income group?—A. Assuming the credit risk is

good and the man's employment is good, we have said that we would like to see in our average community a man building a home who is earning in excess of \$3,000 a year.

Q. Mr. Fraser, are you familiar with an association known as the Home Building Cooperative Association, and the movement that seems to be progressing quite rapidly?—A. I have read only the press reports and have had a very brief opportunity before the session started to look at section 7.

Q. Are you in a position to venture an opinion as to what might happen in regard to that association?—A. No.

The CHAIRMAN: It is now past one, thank you very much for your indulgence.

The next meeting is at 3.30 this afternoon.

The meeting adjourned.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. This afternoon we have with us Mr. R. Brunet, president of the Canadian Construction Association, Mr. V. L. Leigh, of Vancouver, chairman of the housing committee and Mr. S. D. C. Chutter, assistant manager of the Canadian Construction Association. Mr. Chutter will read the brief, and Mr. Leigh will answer the questions.

Mr. CHUTTER: I am sorry, Mr. Chairman, it should be Mr. Leigh of Victoria.

The CHAIRMAN: Gentlemen, I apologize. It is Mr. Leigh of Victoria. I assure you I am innocent of an offence because the document before me says Vancouver.

Mr. FLEMING: You did not need to assure us of your innocence, Mr. Chairman. We accept that.

The CHAIRMAN: You may proceed with the brief, Mr. Chutter.

25 FEBRUARY, 1954.

Mr. CHUTTER:

To The Chairman and Members,
Standing Committee on Banking and Commerce,
House of Commons, Ottawa.

The Canadian Construction Association has greatly appreciated the past invitations to submit its views concerning the Dominion and National Housing Acts and welcomes this further opportunity respecting Bill 102, the National Housing Act, 1954.

The association was incorporated in 1919 and has a membership of a thousand leading firms in the construction industry throughout the country and thirty affiliated local and regional construction associations with an additional membership of several thousand companies. The C.C.A. represents those engaged in all phases of construction activity, including general contractors and builders, trade contractors, municipal contractors (roads, services etc.) and manufacturers and suppliers of construction materials and equipment.

With regard to the proposed amendments to the present National Housing Act contained in Bill 102, the association has in the past advocated the addition of the chartered banks to the direct residential mortgage field and lower down payments and longer amortization periods on N.H.A. loans. The announcement by the Prime Minister respecting these matters on October 1, 1953 was accordingly most welcome.

The C.C.A. has also recommended that improved inspection procedures be established and greater flexibility concerning debt service to income ratios be permitted. The proposals in this regard in the administration of the Act are also to be commended. Encouraging, too, is the recognition apparent during this hearing, that the construction industry is not operating at capacity levels in the housing field measured in terms of materials and manpower and that, as was recommended at the C.C.A. January 1952 convention, a program of some 125,000 new dwelling units should be considered as a minimum national target.

It is not proposed to elaborate here on the desirability of improving Canada's housing inventory or to reiterate recommendations concerning aspects of the housing program not affected by the innovations to the National Housing Act contained in Bill 102 or activities of other governments under the Act. The opportunity is taken, however, to emphasize the following points:

1. It is nearly 22 weeks since the proposed amendments were announced and it is sincerely hoped that the arrangements under the new scheme will be completed before the commencement of the building season. Otherwise, if the present uncertainty continues, the planning for this year's building operations may be seriously affected.

2. It is most desirable to increase the proportion of home owners in our population. The federal government has declared that the provision of improved housing facilities ranks second only in essentiality to our preparedness program. It is interesting to note that in the United States—which also places great stress on its defence activities—the credit regulations concerning residential construction are appreciably less stringent than in Canada. Moreover, the Banking Committee of both Houses of Congress have introduced bills containing the administration's recommendations for liberalized federal legislation, including provisions for increased mortgage ceilings, amortization periods and loan-to-value ratios, equal terms for older houses and larger repair and improvement loans.

3. It is sincerely hoped that action will be taken on section 34 of Bill 102 which provides for the formation of an advisory housing committee. In view of the vital importance of improved housing facilities, it is most desirable that those groups within the economy who provide the money, designs, materials and construction services should have some medium through which to coordinate and present their views to the federal authorities on a continuing basis.

4. It is essential that, in the administration of the Act, full recognition be given to the differences in housing needs and concepts existing in the various regions of Canada and between the large urban areas, medium sized towns and rural communities.

5. If experience should by chance indicate that the chartered banks of Canada do not fill the gap between the demand and supply of mortgage money, Central Mortgage and Housing Corporation should be prepared to continue its present functions with respect to joint loans.

The acceptance by the federal government of the 10 per cent down payment principle for defence workers' housing previously and now for the first \$8,000 of the lending value is very gratifying and indicates the government's desire to make it possible for more Canadians to become home owners. It is the industry's responsibility to see that costs are not increased so as to nullify the advantages given purchasers of new homes by the proposed amendments and to play the leading role in the provision of new dwelling units. This is a responsibility shared with builders by designers, material suppliers, labour, financial institutions and those dealing in real estate, and

contractors will require their utmost help in the construction of well built houses at the lowest possible cost. The principal tools required by builders to assist them in carrying out an adequate housing program each year may be summarized—although not necessarily in their order of importance—as follows:

1. Adequate financing facilities and terms for purchasers.
2. Availability of serviced land at reasonable cost.
3. Efficient and co-operative labour.
4. Adequate supplies of construction materials and installations.
5. The continued co-operation and active support by the N.R.C. Building Research Division and other research agencies.
6. Co-operation of the federal, provincial and municipal governments, town planning commissions, zoning authorities and other public bodies related to the housing program.

The improvement of the nation's housing standards requires a combination of all these factors and a deficiency in any one of them could seriously hamper the efforts of the construction industry.

It is sincerely hoped that the chartered banks will participate in the direct housing mortgage market as soon as possible. Experience with residential mortgages has on the whole been better than good and the added safeguard of the proposed insurance premium should, in the light of experience in the United States, make them an attractive investment indeed.

It is regretted that the 10 per cent down payment provisions in Bill 102 apply only to the first \$8,000 of the lending value. Since the cost of new houses financed under the N.H.A. joint loan system last year averaged about \$10,000, the minimum down payment will in most cases be at least 14 per cent. It is submitted that the 90 per cent loan provision should be extended well beyond the \$8,000 limit and that a 30-year amortization period should be available when necessary and justified. The policy of giving maximum help to those requiring it should be followed although a purchaser should be discouraged from obtaining a larger mortgage or using a longer amortization period than his financial position requires. Similarly, it is essential that there be a close relationship between lending values and current cost levels.

In the past a rigid adherence to an arbitrary stipulation by some of the lending institutions that carrying charges must not exceed 23 per cent of the owners' income has prevented a number of potential home owners from purchasing a house although a consideration of their age, future prospects and family income factors indicated that they could meet mortgage commitments equal to from 25 to 30 per cent of present income. The indication that there will be a greater flexibility in this matter and that up to 20 per cent of the income of a working wife will be considered in calculating the carrying charge to income ratio is based on a more realistic assessment of ability to bear housing mortgages. Rightly or wrongly, there are many examples of tenants paying more than 30 per cent of their income for rental accommodation and it would be preferable for this money to be spent in building up an equity in their own home.

It should be noted that the benefit of the longer amortization periods in reducing monthly carrying charges contemplated in the new N.H.A. amendments would be counteracted on medium-priced houses if there is an increase in interest rates. The influence of this factor was most graphically displayed in Appendix D, pp. 161-162 of Report No. 5 in the Minutes of the Proceedings of this hearing. A rise of $\frac{1}{2}$ per cent in interest rates from $5\frac{1}{4}$ per cent to $5\frac{3}{4}$ per cent would cause an increase in financing costs equal to 7.85 per cent

of the construction cost of a \$10,000 house with a maximum mortgage of \$8,772 amortized over a 25-year period. On the other hand, if the interest rate was reduced to $4\frac{1}{2}$ per cent and the amortization period extended to 30 years, the house could be financed by those with an annual income of \$762 less than is presently the case.

All purchasers should be assured of buying a well built house that will retain its value throughout the years and thereby prove a good long-term investment. In some cases, slipshod work and unfair competition to reputable builders would have been prevented by more adequate inspection services. The relatively minor expense involved in good insurance and it must be remembered that future repair and maintenance expenses must be added to the initial price of a house in order to calculate its real cost. While the inspections may be primarily intended to protect the interests of the lending institution, it is desirable that the government, as insurer of N.H.A. mortgages under the new scheme, is itself fully protected and home owners will benefit from an increase in the number and thoroughness of inspections during construction. Inspection fees are charged to owners and they are entitled to inspections by men experienced in housebuilding and in the reading of plans and specifications.

With regard to the premium that is proposed for insured loans, it is submitted that no attempt should be made to create an accumulating asset. The purpose of these premiums is to provide means whereby the lending companies may be reimbursed should losses occur and if, as is the experience under the present Act, losses are negligible, it is apparent that the thought behind the insurance plan of giving needed help to marginal borrowers is not operating.

With regard to the other sections of the National Housing Act which have been incorporated in Bill 102 with virtually no change, it is recommended that section 4 concerning home improvement and home extension loans be proclaimed and that serious consideration be given to the creation of "open end" mortgages and to N.H.A. loans for the rehabilitation of older houses. These steps would enable a larger portion of our population to own their own homes and would enable young couples to buy a house related to their immediate needs. Such accommodation need only include one or two bedrooms and would consequently be cheaper than the average-sized dwelling unit. Young couples in particular do not require large houses and are not in such a good position to pay the accompanying carrying charges. In due course, however, as the size of their families and income increases, an open-end mortgage would enable them to add additional rooms at reduced financial expense on the same basis as the original loan.

Similarly, the expansion of the National Housing Act's provisions to cover the purchase of older houses suitable for rehabilitation would enable "trade-in" transactions to take place at reduced rates. At the present time, the down payment requirements and mortgage costs are relatively more expensive on an older house than they are on a new one being purchased under the National Housing Act. If used houses, like used cars, could be traded in for new ones, those wishing to buy a new house could use the proceeds of their old one to finance its purchase and those who could not afford a new house would be helped to purchase an older house. In many cases the contractor could rehabilitate a dwelling unit of this kind for a relatively small amount of money and thereby bring it up to a desirable standard of accommodation. The credit arrangements concerning the purchase of new and used cars are substantially the same and it would seem that a similar approach would bring many ensuing benefits if applied to the housing market.

Reference has been made earlier to the necessity of those administering the Act and advancing residential mortgages to keep uppermost in their minds

the need for recognizing the different concepts and requirements in the housing field in the various regions of our country. A reasonable degree of flexibility should be maintained and it should also be recognized that conditions vary greatly insofar as the operations of contractors are concerned in the large urban areas, small towns and rural communities. In some areas, there appears to be a willingness on the part of the people to live in houses with a high degree of uniformity of appearance whereas elsewhere there is a willingness to pay the additional price accompanying the erection of dwelling units containing some degree of individuality of appearance. Then again, it is possible for large-scale merchant builders and housing developers to operate in our larger cities but there is a great deal less scope for them in our smaller communities. The calculation of lending values, end prices, debt service charge ratios and other regulations should be geared to regional requirements and practices. It should be remembered that the individual who purchases a house is very likely making the largest financial transaction in his lifetime. This house must be made into a home and paid for over a period of many years. It is consequently tragic if owners have to pay each month for a house with which they are dissatisfied.

In the larger cities, most of the new housing is erected by the merchant builders who frequently carry out multiple housing projects in single areas using a limited number of designs. In the smaller centres it is generally the practice for prospective owners to purchase their own lot and to choose a contractor to build a house for them suitable to the lot and to their individual requirements. The need for housing is great and both approaches should be exploited and assisted to the full.

The construction of houses "built to order" should be encouraged by the federal authorities wherever practicable or the alarm expressed in the Massey Report concerning the appearance of Canadian houses in general will have increasing foundation. Experience in some areas indicates that this will entail different yardsticks of basic costs and end prices for houses erected by the merchant builders in multi-unit projects and those erected on individual lots.

As an example, reference will be made to the situation in Victoria, B.C., in 1953. I cite Victoria because I am able to speak from personal experience. A three-bedroom and dinette house of 1090 square feet, with basement garage on a typical lot valued at \$1,000, based on the estimates of two long-established and well-known contractors, \$12,284. This sum includes a 10 per cent allowance for office expenses, drafting, financing costs, supervision and other overhead items, the contractors' salary and profit, if any. The appraised value of the house by C.M.H.C., however, is approximately \$10,750. This amount becomes the end sales price or a maximum loan is not approved. This difference wrongly infers that the reputable contractor is asking excessive prices for his work and may lead to skimping, separate financial arrangements, amateur construction work and so on in order to obtain the maximum loan.

The result of this policy is apparent from the following figures:

Dwelling units started in Victoria in 1953.....	1086
Those not financed under the N.H.A.	586
<hr/>	
Those with N.H.A. loans	500
Apartments (all contractor built)	105
<hr/>	
Single dwellings	395
Single dwellings built by home owners.....	260
<hr/>	
Single dwellings built by contractors.....	135

Thus contractors, who must comply with the end price regulations, built only 34 per cent of the houses financed under the National Housing Act and it is safe to say that at least 70 per cent of the other houses are being erected by "week-end" builders. This example has been dealt with in some detail to show the necessity of some flexibility in the administration of nation-wide regulations if builders are to make their full contribution towards solving our housing needs.

With regard to section 35 of the existing National Housing Act, it is felt that the present legislation is quite satisfactory with reference to the provision of subsidized low rental housing for the underprivileged and aged. Indeed, greater activity in providing additional or improved accommodation under the terms of the other sections of the Act will serve to reduce the necessity for subsidies in our housing program. While there are at this time a good many representations made in support of a large subsidized low rental housing program, efforts should be primarily directed at providing housing for our people without resorting to subsidy.

A substantial improvement in the housing situation has taken place in Canada during the postwar period. With our population, average incomes and housing standards rising steadily, it is doubtful that we will ever be completely satisfied with the adequacy of our housing. The campaign to bring about steady improvement should be as comprehensive as possible and it is felt that a program incorporating a 25 per cent increase in housebuilding operations could and should be carried out this year without causing undue inflationary pressure, thereby improving the living quarters of a substantial portion of our population, giving more families a tangible stake in their community and providing additional employment both on the job sites and throughout a large number of supporting industries providing the materials, installations and furnishings incorporated into each new dwelling unit. The assistance given by federal housing legislation since its inception has been of considerable value in facilitating the erection of a substantial part of our housing program. Our experience today indicates that a far better job could be accomplished by our industry providing the tools mentioned earlier in this brief are made available in sufficient quantity by those groups whose activities affect the size and efficiency of the operations of the housebuilding section of the construction industry.

Respectfully submitted,

V. L. LEIGH

*Chairman,
C.C.A. Housing Committee.*

Mr. V. L. Leigh, Chairman of the Housing Committee, Canadian Construction Association, called:

Mr. CHAIRMAN: Mr. Tucker?

By Mr. Tucker:

Q. On page 1 of the brief it says that the C.C.A. represents, among other manufacturers, manufacturers of construction materials and equipment. What type of manufacturer would that cover?—A. It comprises major firms in the building materials, like plumbing, lumber and cement.

Q. Well, in regard to plumbing,—

The CHAIRMAN: One minute please Mr. Tucker. If you sit close to Mr. Leigh, Mr. Chutter, you could answer those questions which might be directed to you.

By Mr. Tucker:

Q. Plumbing seems to add tremendously to the cost of houses and from what I have heard happens in some other countries this occurs much more in Canada, more proportionately in Canada than in European countries. Is that your experience?—A. The cost of plumbing is certainly higher than it was in 1939.

Q. And today it is higher than, for example, the cost of the installation of plumbing in Great Britain?—A. I would not know what the cost of plumbing in Great Britain is. I saw some of their plumbing over there in 1949 and it certainly is not up to the standards of the plumbing we put in here.

Q. In what way?—A. They were still putting in toilets with the water container up on the ceilings with a pull chain.

Mr. FLEMING: An overhead tank.

The WITNESS: Yes.

The CHAIRMAN: An explosion.

Mr. FLEMING: Gravity.

Mr. TUCKER: What I was getting at is that the cost of bathtubs and basins seems to be out of all proportion to the amount of material embodied in them. How do prices of these articles compare with similar articles in the United States, for example?—A. I do not feel I can give you the prices in the United States. It is a full time job to run a business in Canada.

Q. Mr. Tucker, I thought that in view of the fact that you represent the manufacturers of these plumbing articles, you would have some knowledge of the comparative prices of these articles?

Mr. BRUNET: May I answer that?

The CHAIRMAN: Yes, Mr. Brunet.

Mr. BRUNET: From the information we have, there is not much difference in the overall cost of building in the United States and Canada.

Mr. TUCKER: Take for example, an ordinary bathtub such as you put into a house in Canada today, is the cost 50 per cent higher in Canada, or is it more than that?

Mr. BRUNET: Compared to the States?

Mr. TUCKER: Yes.

Mr. BRUNET: There is a larger market in the States and more competition among the manufacturers, but I would say 25 per cent in Canada would be more like it.

Mr. TUCKER: 25 per cent?

Mr. BRUNET: Yes.

Mr. TUCKER: As a matter of fact, the prices of all these forms of plumbing equipment are pretty well the same all across Canada.

Mr. BRUNET: For the standards, yes.

Mr. TUCKER: It is just about the amount it is in the United States, plus the tariff?

Mr. BRUNET: I cannot answer that.

Mr. TUCKER: Do you consider that the cost of manufacturing bathtubs in Canada is 25 per cent more than it is in the United States?

Mr. BRUNET: I would not be able to give you a detailed answer, but I would figure that in the United States those manufacturers are operating on a larger volume which would effect the cost because in the United States you have a market of 160 million. Here you have a market of 14 million.

The CHAIRMAN: 15 million, Mr. Brunet.

Mr. BRUNET: You have the same situation in the car market. You buy a car in the States which will cost you much more in Canada, but it is the same car, because I presume the market is more limited here, for less volume.

Mr. TUCKER: What I do not understand is that when we took the tariff off farm implements we got them even cheaper in Canada than in the United States. Why is it that they can manufacture implements which, after all, are much more complicated, and sell them cheaper on the Canadian side than they can sell them right across the line in Montana, and you cannot do the same with bathtubs?

Mr. BRUNET: I do not think I can give you a technical answer to that. We may guess at an answer but I do not think that this is the place to do it.

Mr. TUCKER: Would you say that houses generally cost 25 per cent more in Canada than in the United States?

Mr. BRUNET: No sir.

Mr. TUCKER: Why is it that in this particular field plumbing articles cost 25 per cent more?

Mr. BRUNET: If you take the overall cost of the house, our wages are a bit lower than in the United States. Or, even if you pay more for a bathtub, you will pay less for your bricklayer and plumber.

Mr. TUCKER: If you pay lower wages, why can't you manufacture bathtubs for less?

Mr. BRUNET: It is too bad, but we are not in the bathtub manufacturing business.

Mr. TUCKER: But, we have them in Canada?

Mr. BRUNET: But we are builders.

Mr. TUCKER: I understand that you represent the manufacturers of equipment?

Mr. BRUNET: But we do not analyze the corporations or their systems.

Mr. TUCKER: What about the cost of building tile in Canada and in the United States?

Mr. BRUNET: Building tile will be higher in Canada than in the United States. You mean glazed tile, is that it?

Mr. TUCKER: Any sort of tile?

Mr. BRUNET: It will be more expensive in Canada.

Mr. TUCKER: I was under the impression that tile manufactured in Estevan, Saskatchewan, is actually being shipped into the United States and they are paying the tariff. If the price is higher in Canada than in the United States, why is the price higher in Canada than in the United States?

Mr. BRUNET: It may be for a special type or special grade of tile. There is a vast variety of types of tile. I would not be ready to give you information concerning any specific tile.

Mr. TUCKER: Is there much difference in price between tile in Canada and the United States?

Mr. BRUNET: I do not think there would be much difference in the actual making of the tile, but there will be much difference in the volume of tile that may be manufactured. The volume would, I think, have a big effect on the final price. If the manufacturer in Canada manufactures only 10,000 tile a day, and the United States manufacturer produces 2 million tile a day, the overhead and everything would be spread much thinner on the big quantity.

Mr. TUCKER: And what about lumber?

The WITNESS: May I say something on lumber? I come from a lumber country.

The CHAIRMAN: Yes.

The WITNESS: Lumber has gone up more than any other product that goes into house building. I think it is sufficient to say that the price of lumber is established by world market demands. When there is a big demand in the United States, they can get a better price over there, and continually manufacturers over the last few years have been selling locally in Vancouver and Victoria for less to help the local house builders than they could get in car load lots and they have up until a year ago had a premium on their money but the lumber manufacturers actually sell their lumber at world market prices and there has been a shortage all over the world.

Mr. TUCKER: If lumber can be made and hold in Canada as cheap or cheaper than it can in the United States, why does not the same thing apply to plumbing equipment, for example?

The WITNESS: That I cannot answer. I do not know the plumbing business.

Mr. TUCKER: This is a big mystery. There are certain things which go into the cost of housing which are so much more expensive in Canada than they are in the United States or other countries?

Mr. LEIGH: I may be able to say something which is relevant to that. We have four or five concerns making cast iron bathtubs and toilets and sinks in Canada. In the United States I suppose there are 100 such concerns doing the same thing. Competition is very very keen over there and their market is concentrated more in the area in which they manufacture. Plumbing fixtures are manufactured in the east in Canada, and we have to pay a large freight rate to the west. They have very keen competition. They have to maintain an elaborate showroom to sell their wares. People do not want to go into a warehouse to look at plumbing, they want to see a set up bathroom. That all costs money. That may be a reason for it, I do not know. It is just an observation.

Mr. TUCKER: As builders, have you brought in much plumbing equipment from the United States in connection with your building operations?

Mr. LEIGH: Very little. By the time we pay duty and freight on a small quantity it only goes into the luxury houses and is a special order for something which you cannot buy in this country.

By Mr. Tucker:

Q. But you would agree with my suggestion that the cost of, say, a steel bathtub in Canada is much higher, for example, in Toronto than it is across the line in a similarly placed city in the United States?—A. I do not know what the price of a bathtub is in Toronto, and I do not know what it is in the States.

Q. What about Vancouver and Seattle?—A. We are bringing in quite a few steel bathtubs from the United States and they are selling about the same price as they cost here.

Q. After paying a tariff of 35 per cent, is it?—A. We do not know. We buy the bathtub from the wholesaler.

Q. But they would have to pay whatever the tariff is?—A. Yes.

Q. So that the domestic article will be bearing a fairly close relationship to the United States article plus the tariff and the freight in your market?—A. That is a hard question to answer, because as a contractor I do not buy bathtubs. I buy an installed unit. There are few places in Canada where operations are big enough and steady enough for a general contractor or a builder to buy his material and hire his own help.

Q. By a complete set you mean the whole of the bathroom; the bathtub, the toilet and the basin, and the whole set-up?—A. Yes and the piping and the labour to install it.

Q. Are much of those set-ups imported for work in Vancouver?—A. They are not set up.

Q. I mean, the component parts of the assembly?—A. In Victoria, no. It is the plumbing supply firms. Victoria is a large enough market. Take Crane and Company; they have warehouses in Victoria, and the plumbers with whom we deal, the larger ones, buy in carload lots from Crane, and they buy it at the very cheapest price.

Q. This stock manufactured by Crane's, is most of it manufactured in Canada?—A. Yes.

Q. But you said that there was quite a bit of importation?—A. Mainly in the case of luxury houses where people wanted a special bathtub, like a square bathtub. I do not believe there is any made in Canada today. If you want a square bathtub you have to send to the States for it. and that does not go into a basic house.

Q. I wonder if it is true that Crane's pretty well dominate the market situation in regard to plumbing equipment?—A. I would not say that. There is very keen competition in Canada between the firms.

Q. Is it competition in price or competition in endeavouring to sell?—A. In endeavouring to sell. About the prices, I do not know what the price is. I deal with a plumbing concern in Victoria, several of them. I get three or four prices from reputable firms, and they buy where they can get it cheapest. The larger the quantity they buy for example they buy cheaper in carload lots than with individual bathtubs, considerably cheaper. They go directly from the factory without warehousing.

Q. Just one other point, Mr. Chairman. There is this question of enabling a couple to start a house with, say, five rooms, and then add to it as their family grows—I have had personal experience with that, of course. What about another aspect of that? As we know, more than half the people live in houses that are not fully modern, particularly in our smaller urban centres, and as people's incomes increase they modernize their homes. Now, what do you think of the suggestion that help should be given to people who cannot afford a fully modern home but want to have a home that is as good as the average home in the district in which they live, a new home, but one which would be just on a par with the majority of homes in the town or village, with the idea that later on as their incomes increase they would be able to modernize? Would the same argument apply to that case as to the man who is just married and does not need a big home because his family has not started yet?—A. I presume you mean in a small town, say on the prairies, where they have a path and a little house at the end of it?

Q. That is right, and that is what half the people live in on the prairies.—A. Their houses are not on concrete foundations they are just on posts?

Q. I am not saying they should not have a good house to begin with. I am speaking of a house that would be a very good house, built on a foundation and otherwise fully up to standard, that might not yet actually have the plumbing installed in it. In other words, there might be room even to put plumbing in but there would be no idea of putting it in at once. Is there anything wrong with persons like that building a house like that with the idea of modernizing it later on?—A. I think that if a house is structurally up to the basic standards of the National Housing Act and provision is made that a bathroom may be added then I can see no reason why an open-end mortgage would not be of use. I think it would be beneficial.

Q. I do, too, and I wondered why you did not put that in your brief.—

A. That is inferred in there.

Mr. TUCKER: That is all.

The WITNESS: By the way, we received our invitation to this meeting on the 17th of this month, as the letter went astray and it has been strenuous to come from Victoria and prepare a brief in that time.

Mr. TUCKER: I think you have a good brief; there is no doubt.

The CHAIRMAN: I understand that the letter was sent out on February 2.

Mr. CHUTTER: It was sent to Montreal, with no street address, and it went to a president who left office two years ago.

The CHAIRMAN: It was sent to the wrong president.

By Mr. Fleming:

Q. Mr. Leigh, I would like to ask you some questions about the membership of your association. You have indicated in the second paragraph of the brief:

The association was incorporated in 1919 and has a membership of a thousand leading firms in the construction industry throughout the country and thirty affiliated local and regional construction associations with an additional membership of several thousand companies.

You were here, I believe, this morning when we heard testimony submitted on behalf of the National House Builders Association?—A. Yes.

Q. Are they affiliated with the Canadian Construction Association?—A. No.

Q. It was testified in their behalf that their members constructed in 1953 about 20 per cent of the houses that were constructed in Canada. Are you in a position to indicate what percentage of the houses built in Canada in 1953 were constructed by members of your association?—A. We have no figures in that regard, Mr. Fleming, and I might add that there would be considerable overlapping. A lot of the members of the N.H.B. are members of the C.C.A.

Q. That is what I was coming to. Even though they are not actually affiliated with your organization, nevertheless there are many construction companies which belong to both the Canadian Construction Association as well as the National House Builders Association.—A. That is right and also at local levels, through the builders exchanges.

Q. Yes; but your organization, I gather, is nationally representative through its various members and affiliated associations?—A. Yes.

Mr. BRUNET: We have a membership extending from the Atlantic to the Pacific and each province has its own representation. We operate in four different sections. The general contractor section is the most numerous one; and in addition there is a section for trade contractors and one for road builders, public services, excavation men; and one for suppliers and manufacturers of building materials.

Mr. FLEMING: Housing construction then is only one of the activities engaged in by the members of your association?

Mr. BRUNET: Yes; but they are not separated. In the general contractors section we have builders who are putting up houses and apartment buildings; and on the other hand in the trade section we have quite a few plumbers and painters and people like that who are engaged in housing too.

Mr. FLEMING: On page 2 of the brief you refer to the fact that at the January 1952 convention of your association a program of 125,000 new dwelling units was said to be considered as the minimum national target. Is that statement based upon anything in the nature of a careful survey of the house-building capacity of the Canadian construction industry?

Mr. BRUNET: The only information we had at that time was what they call the Curtis Report, which was a survey made here a few years ago. But since then we have had figures sent in from our own members. If we take the natural increase of population in Canada, plus the immigration increase that has been coming in since the war, and if we figure that the family unit in Canada at the present time is a little over 3·5, and if each housing unit would lodge $3\frac{1}{2}$ persons, then 100,000 units would be the number which would take care of the normal increase in population. Therefore it was estimated that in order to catch up with that backlog he would need at least 25,000 more units.

By Mr. Fleming:

Q. That is how you arrived at the target figure. But I was directing my question to the matter of the capacity of the Canadian house-building industry, in respect to the house-building capacity of the Canadian construction industry.—A. According to the records compiled by Central Mortgage and Housing Corporation, nearly 104,000 houses were commenced last year.

Q. You are speaking of the whole Canadian construction industry, not just your own members?—A. I thought you meant the whole industry, Mr. Fleming.

Q. Yes, I did.—A. We feel that 104,000 did not over-tax the ability of the industry and we feel that they did not work to full capacity last year.

Q. What do you estimate to be the annual house-building capacity right now of the Canadian construction industry?—A. That is difficult to say, but we believe from past experience that we can—as we say in our report—reach 125,000 units without any further undue inflationary pressure.

Q. Well you have added something there and I want to ask you about it. First, as to those 125,000 new dwelling units, I have seen this figure referred to from time to time as 125,000 and on other occasions as 130,000 housing units. Is that estimate based on anything in the nature of detailed survey, or is it just a general estimate arrived at because you have built in the neighbourhood of 100,000 units and you figure that you could build more?—A. From the information we have received from the various contractors, many indicate that they are not working to full capacity. Therefore the 125,000 we believe is a target that can be set and maintained by the industry.

Q. Well, I am not speaking now so much about the target aspect of this as I am about the capacity. I take it there has not been a detailed survey. You have received some reports from some of your members; but has there been at any time a detailed and careful national survey, let us say, within recent times, to determine the capacity?—A. Not what you would call an official survey that I know of.

Q. It need not be an official survey, provided it is at all thorough.—A. That is something that would be very difficult for the industry to get because there are so many houses being built outside of the membership of the industry, especially in smaller places.

Q. Coming back to the expression which you added to your answer just a moment ago, when you said that you reckoned that 125,000 housing units were within the annual house-building capacity of the Canadian construction industry without adding to inflationary pressures; now, let us break that down. First of all, let me ask you this question: Have you any reason to believe that the industry can build 125,000 housing units a year without reducing the level of other forms of construction other than housing?—A. At the present time, according to all indications, there is ample labour and ample material to do it.

Q. Well, can you answer my question then in view of what you said about the supply of labour and materials? I ask you if you can build 125,000 housing units a year without reducing the level of other types of construction, that is, other than houses?—A. I think we can.

Q. Now, let me again ask you upon what you base that conclusion?—

A. On the fact that we handled 104,000 housing units last year without any difficulty at all.

Q. And what would you say about the extent to which your construction capacity for things other than housing was employed last year?—A. Once again I must ask Mr. Brunet to answer the question.

Mr. BRUNET: The total value of construction last year was $4\frac{1}{2}$ billion according to the Dominion Bureau of Statistics. And out of that you have \$1,700 million for heavy engineering construction including what is going on at Seven Islands, Kitimat, the Toronto subway, the Hydro electric power development at Niagara Falls, and so on. Housing represents \$1 billion, two hundred million out of $4\frac{1}{2}$ billion; so there could easily be a percentage less than that for industrial or heavy construction which could be applied to housing without upsetting the over-all picture.

Q. You see, Mr. Brunet, that is not quite what I am asking you. I am asking you if you can increase your housing construction rate in Canada from the present figure of, let us say, 100,000 up to 125,000 per annum without reducing the rate of construction on forms of Canadian construction other than housing?

Mr. BRUNET: I believe so, sir. That is my opinion as well as the opinion of the industry.

Mr. FLEMING: I take it that the Canadian construction industry was not fully employed over all last year. Is that correct?

Mr. BRUNET: I would put it the other way. We were employed fully over all; you have English firms and American firms who in the last six months opened up in Toronto and Montreal and are looking for work. These people we figure will help us in the heavy type of construction, but house construction is very flexible, sir.

Mr. FLEMING: Do I understand that your statement is that the Canadian construction industry as constituted today was fully employed in 1953?

Mr. BRUNET: I would say 90 per cent anyway. We were mostly all busy last year.

Mr. FLEMING: And you look to these outside sources for any expansion of the capacity of the Canadian construction industry?

Mr. BRUNET: We are not looking for them. They are looking for us. We did not invite them, but if they come it is because they know we are bound to have an increase in the construction industry and they want their share; that is all.

By Mr. Fleming:

Q. Now, Mr. Leigh, may I revert to this matter of inflation. If we increase house construction in Canada by say another 20,000 to 25,000 housing units a year—and you have indicated that you think that can be done without increasing inflationary pressures—would you in relation to that tell us what led you to the conclusion that that can be brought about without any inflationary result?—A. I said “undue inflation”. From experience it has been found that when a city demands 500 houses in that area built at once, it requires more than the facilities of that area to do it. Material goes up and labour goes up; everybody wants a little more money. But, with a steady increase year after year that does not happen and when you take 25,000 units and spread that over the whole country you would not have that inflationary pressure. Communities will build up gradually.

Q. Can you say within what period we can build up the construction output of houses in Canada from 100,000 to 125,000 units without giving rise to inflationary pressure?—A. If you look at the size and capacity of the con-

struction industry when the war started and look at it now it has been able to cope year by year with increasingly greater demands upon its capacity and has done it successfully and that is something which we are proud of, the ability to expand of the industry.

Q. I am dealing rather with the question of inflation. If you are going to go back to what has happened that takes us into increasing prices, I am wondering if you have any study or factual information to point to in indicating what can be accomplished in the way of increasing production without giving rise to inflationary pressure?

Will you tell me over what period, whether one year, two years, three years, you can build up output from 100,000 to 125,000 per annum without giving rise to inflationary pressure?—A. In 1952, I think, the starts in Canada were some 86,000. We went in one year from 86,000 to 104,000, and virtually no increase in prices. That was quite a jump in one year and the industry was able to do it.

Q. Will you go on and answer my question?—A. We can see no reason why we cannot do a like amount in another year.

Q. You think within 12 months from now you can build up to a rate of 125,000 a year?—A. I think so.

Q. Without increasing inflationary pressure?—A. I think so.

Q. Have you any information on this matter of the backlog, or in arriving at your estimate do you simply proceed by starting with the Currie report—I am sorry the Curtis report—as did the other construction people who were here this morning.

The CHAIRMAN: Do not mention that name.

Mr. FLEMING: I gave that from force of habit and the atmosphere in this room.

The WITNESS: Canada is a big country and house building contractors do not build across the country; they build in the area in which their head office is and they keep a pretty close feel on the pulse of the requirements of the people in that area. I do not think there is anything outside your Curtis report that we would have on which to base what the backlog is.

By Mr. Fleming:

Q. I understand that in your association you have used the figure 500,000 as the backlog of housing needed in Canada?—A. We have not used that in recent years.

Q. What figures have you used in recent years?—A. No figure.

Q. You have kept away from that matter?—A. Yes.

Q. You have spoken, on page 6 of the brief at the top of the page, about what could be accomplished in the way of easing house purchase if the interest rate were reduced to $4\frac{1}{2}$ per cent and if the amortization period were extended to 30 years. How would you propose to reduce the interest rate to $4\frac{1}{2}$ per cent? Have you any suggestions?—A. Sir, I have no suggestion how that could be done.

The CHAIRMAN: Especially in view of the remarks in the second paragraph on page 10, where you say you are opposed to a subsidy; how could you do it; in view of that?—A. That table is put in there for comparison purposes. The industry has been taking an awful lot of criticism. We are alleged to be charging too much for houses; we are making too much profit; people cannot understand why housing costs what it does. But, if you break down the cost of a house item by item it is proven that interest and financing is a definite part of the cost of the house. Builders have no control over that at all. We put that into to show that a $\frac{1}{2}$ of 1 per cent increase at this time would mean an increase

comparable to a 7.85 increase in the cost of construction. I know that in our papers out on the coast it was said that $\frac{1}{2}$ of 1 per cent did not mean anything. I was trying to use that to counteract it.

By Mr. Fleming:

Q. But you have not any suggestion to offer as to how this result of reducing interest rates to $4\frac{1}{2}$ per cent is to be achieved.—A. No, I have not. I said that is only to show what could be done if it were possible.

Q. On page 7 near the top, you have something to say to the effect that serious consideration should be given to the creation of "open end" mortgages. Would you enlarge on that and explain briefly what you mean by that and what application it would have to the older houses that you have mentioned further on?—A. The idea of the "open end" mortgages was not for older houses.

Q. That is strictly on new construction?—A. Yes. It starts right with the designing. You design a house economically so that it can be increased in size. For instance if a young couple marry, the husband's income is small but as he is in a good position. They are faced with a housing problem, and have to buy a house now and are forced to buy it and pay for it over a period of 20 years based on their capacity to pay for that house today. That stops a lot of people from building. Later on they are in an embarrassing position when they need three bedrooms and they find themselves in a serious predicament if they have to sell and they have to buy again. We suggest an "open end" mortgage so that the house can be increased in size instead of going through the expensive procedure of obtaining a new mortgage. The old mortgage should be flexible enough to take on a portion of the cost of the additions and add it on to the mortgage.

Q. Mr. Leigh, may I come back to something I mentioned a minute ago, and that is the subject of profit. What has been the trend within the construction industry so far as house construction is concerned in the matter of profit in say the last four or five years?—A. That is a difficult question to answer.

Q. Has it been uniform, up or down?—A. I know this much, that today if you carry on any volume of business, you have to cut your profit considerably.

Q. Would that mean that the trend at the present time in house construction, in so far as profit is concerned, is downward?—A. It has been downward.

Q. What, in your opinion, would be the effect of the removal of that maximum price restriction now enforced by Central Mortgage and Housing Corporation in the case of maximum loans?—A. On page 9 of the brief we show in reverse what has happened from the end price policy.

Q. Yes.—A. Five years ago, the contractors were building most of the houses in Victoria. Today they are not. The contractors that were building five years ago have almost all gone into some other type of construction, because they cannot meet these end prices and stay in business.

Q. May I go back to my question. I am trying to get some sort of summary statement of opinion, while we have the opportunity of having you here and obtaining your opinion. What, in your opinion, would be the result of the removal of that maximum price structure?—A. Well, I personally can speak only for a city like Victoria. I do not think it would increase the price of a house 5 cents. There is a compensating factor and that is the ability of the man to pay his monthly payment. Everything comes down to the ability of the purchaser to make that monthly payment. He can borrow from his friends, or his parents or the bank, and add \$400 and so make his down payment, but he has to pay over that period of amortization 23 or 24 or 25 per cent of his income. If a man cannot buy a house under those conditions, a contractor cannot ask more money for it if he is to build.

Q. One more question, Mr. Brunet. You were asked earlier this afternoon about differentials in prices on certain plumbing fixtures and other materials as between Canada and the United States. Have you taken into account Mr. Brunet, the difference in the tax structures of the countries as entering into the cost of construction?

Mr. BRUNET: Do you mean local or federal taxes?

Mr. FLEMING: The total of Canadian taxes. You will forgive me if I think particularly of the federal ones.

Mr. BRUNET: We are interested in both. The only experience I have is this: I have a brother who is a contractor in Detroit. Every two or three years I visit him and he shows me the houses in Detroit which he is building. Whenever I visit them I get the feeling that we in Canada are building better houses for the same money.

The CHAIRMAN: Mr. Johnston?

Mr. JOHNSTON: Mr. Chairman, I have one or two questions. Some of the questions I wanted to ask were already answered, and I do not see any advantage in going over that ground again.

The CHAIRMAN: That is good.

Mr. JOHNSTON: But, on page 8, I wanted to get a little clarification of some of these expressions, particularly in the middle paragraph where you say: "If used houses, like used cars, could be traded in for new ones, those wishing to buy a new house could use the proceeds of their old one to finance its purchase and those who could not afford a new house would be helped to purchase an older house," and then you go on explaining that. Just what is the advantage of renovating an old house rather than building a new one?

Mr. BRUNET: Are you asking me, sir?

Mr. JOHNSTON: Whoever cares to answer.

The WITNESS: Mr. Johnston, I know that I myself would prefer to purchase a new house. I would rather have a new house just as I would rather have a new car, but there are a lot of people who cannot buy new homes and I think this would help the lower income group. There are many houses in good districts across the country in all cities which can be, with the expenditure of a little money, brought up to date.

Let us take a family, consisting of a man and wife whose children have grown up. This man does not need a large house any more. He would like a small new house. But here again, there is a man coming along with a growing family and he wants a larger house but there is not a chance of buying a new house of the size he wants.

Mr. JOHNSTON: But under the circumstances you are speaking of you are referring to a person who already owns a house and wants an addition, but you are not referring to an old house?

The WITNESS: There are the two people—the man with the large family who wants a larger house and has not got one, and the man (with the large house) whose family has grown up and who wants a small house. The man with the large house who does not want it but wants a new house, goes to a contractor and says, "I have an equity in a house with four bedrooms. What can get for that house on the cost of a new house?"

Mr. JOHNSTON: Is it not true that relatively speaking it costs a great deal more to build a one-room addition on to a house than to incorporate that one room into a new building? You say here that in many cases the contractor could rehabilitate a dwelling house for a relatively small amount of money? Is that true?

The WITNESS: Yes.

Mr. JOHNSTON: Relatively speaking, it costs as much money to remodel or renovate an old house as it does to finance a new one. Now, I can see your point: if a fellow has a house and sells it and then places that money on a mortgage to the Central Mortgage and Housing Corporation, or whatever corporation he is borrowing from, and uses that money as a down payment to build a new house, I can see some other argument; but if a man with a relatively old house wants to take out a mortgage for renovating it, his costs will be much more, is that not true?

The WITNESS: It all depends on the house. If a house has a good foundation, a good structure and a good heating plant in it, I would say that 10 to 1 the only things that will need remodelling in that house will be the bathroom fixtures and the kitchen fixtures. The rest of the house will not need very much remodelling. The whole house is there. A man with four or five youngsters, and there are lots in Quebec with more than that, would like a larger house if he could buy that house on the same terms on a N.H.A. mortgage as he could when buying a new house. He can have a house the size he wants and it will not cost a lot of money to fix it up. \$1,000 to \$1,500 would look after the cost of remodelling the kitchen, and give him a real smart up-to-date kitchen, and \$500 will fix up the plumbing.

Mr. JOHNSTON: You cannot go very far with \$500 for plumbing nowadays.

The WITNESS: But the roughing in is all there, and only the fixtures will have to be replaced.

Mr. JOHNSTON: That is a matter of opinion, I guess. Let us go on to another point then, Mr. Chairman. One member was speaking of rising costs. I know you probably do not deal in plumbing and wiring equipment, but what would you say as a contractor, about this? In your brief you say that you represent those engaged in all phases of construction activity, including general contractors and builders, trade contractors, municipal contractors, manufacturers and suppliers of construction materials and equipment, and so on. What is your experience of the increases in the cost of plumbing and wiring over, say, a period of the last five or ten years? You sublet that, I suppose?—A. Yes.

Q. So you would have a definite knowledge of the increase in prices if there were any?—A. From my own experience, say five, six, seven years ago, the plumbing construction, the kitchen sink, the bath, toilet, and basin, the boiler and stationary tubs.

Q. A single plumbing unit?—A. A unit for one house would cost, say, complete and installed \$400 approximately. Today it is costing between \$700 and \$800.

Q. Now, have you any explanation as a builder for the increased cost of plumbing? That almost doubles the cost of plumbing.—A. You take your wage content, you take the increase in freight rates, you take the increase in rental of the warehouse, and it could be justified, I think.

Q. Are you speaking now on behalf of these concerns and saying that that is the reason for the increase?—A. I cannot see any other explanation for it. I do not think the manufacturers have taken advantage of the public.

Q. Do you give the same reason for wiring?—A. The same reason for wiring.

Q. I think most people generally concede that that is a tremendous increase, 100 per cent in the matter of a few years. You have no other suggestion for lowering costs? How about reducing the standard of the house? Would you advocate that? Some organizations have advocated the lowering of the standard.—A. The Central Mortgage and Housing Corporation and National Housing Act minimum standards, I think, are fair. There is a fair protection to the owner and to the lending institution.

Q. You would not advocate anything lower than the standards of Central Mortgage and Housing Corporation in that regard?—A. There are only little things. No, I would say I would not go into that. I think they are generally satisfactory at the present time.

Q. I notice on page six you refer to inspections of housing and you give some of the reasons why there might be "slipshod" or careless building. I notice you used that expression there. Who do you think should make the over-all inspection of the house to see that it is built according to the standards required by C.M.H.C.—A. I think it should be by a man that knows construction from the ground up.

Q. But would that be under our set-up?—A. Personally, I do not care. I am too busy to worry about inspectors. There is a specification. I figure the house on that specification and order the material from that specification. The specification is given to my foreman, he has the plans, and it is up to him to build to that, and if he does not he is soon out of a job.

Q. I think you would be a good contractor.—A. I think that is the attitude of most contractors.

Q. Suppose Central Mortgage and Housing Corporation sent out an inspector to see that that house was built according to the plans and specifications, would you have any further objection?—A. No, I would not have any objection.

Q. You would have no objection to having Central Mortgage and Housing Corporation do that for you rather than an inspector from the loan company, shall we say?—A. To me personally it would not matter. I know that is slightly different to the feeling expressed this morning and maybe, I will qualify that just a little.

Q. Don't qualify it. You set a very good standard.—A. Wherever possible, I think it should be done not by the government. However, I can see the government's attitude and reason for this, and I am agreeable to stand by it. They are going to insure these mortgages.

The CHAIRMAN: What I like about the evidence before the committee is that everybody comes here and suggests that the government provide them with more money for housing purposes but at the same time stay out of business. How that can be done is beyond me.

The WITNESS: That is why I am saying that I am satisfied with it. Whether all the C.C.A. will take me up on that, I do not know.

By Mr. Johnston:

Q. I don't know whether you are speaking on behalf of these people. If you care to express a personal opinion, that is all right. As a builder of long experience with Central Mortgage and Housing Corporation, who have had long experience with standards and have set up a reasonable building code, do you think that if there were a Central Mortgage and Housing Corporation inspector to see that the building was built according to the plans and specifications laid down by C.M.H.C. there would be no necessity for having a further expense added by having a mortgage inspector?—A. No, other than that the mortgage companies have men in all these districts to look after their mortgages. They have mortgage men in Victoria and Vancouver. They have another man in Vancouver who looks after the whole of British Columbia. They are all active men and they are certainly going to keep an eye on the work as a whole.

Q. As you are a good contractor—and I assume you are—would you have any objection to having the contractor bonded?—A. No, I would have no objection to having the contractor bonded.

Q. Do you think that would assist the building industry in maintaining its reputation so that some of the less efficient contractors would be compelled to live up to the standards?—A. I would have no objection to that at all.

Q. Do you see any advantage?—A. Yes, I do, I have advocated that on more than one occasion myself in our local area.

Q. On page nine, you referred to “weekend” builders, at the bottom of the page. What did you mean by that?—A. “Weekend” builders. The 40-hour week was primarily established at the request of labour to give their men some time off. They do not know what to do with their time, so they build new houses. One is a carpenter and he starts a house, and a plumber helps him with it, and it is surprising the number of those people who do that. We have a mild winter and all-year-round building, but that is only a part of it, but another weekend builder has come into the picture, and that is the class that cannot get an N.H.A. loan. They need a house badly. They first of all acquire a lot and they pay for it. They get enough money together and they get a foundation in, and then they buy \$100 worth of lumber and they nail that up, and they get their friends in the construction industry to help them. That is where the “weekend” builders come from.

Q. You say that 70 per cent of the houses, I take it built by N.H.A., are done by “weekend” builders?—A. No.

Q. I take it from the sentence you have at the bottom of page nine.—A. No, the 586 that are not built under the N.H.A.

Q. “34 per cent of the houses financed under the National Housing Act and it is safe to say that at least 70 per cent of the other houses are being erected by ‘weekend’ builders.”—A. That is the 586, not these houses under N.H.A.

Q. Then your main objection to that is, I take it—and you may correct me if I am wrong—you think that these weekend builders are not building houses which will be satisfactory according to the standards which are set out?—A. I do not think there will be one of those houses which are being built in our area today which will conform to the minimum standards.

The CHAIRMAN: They are getting private mortgages, are they not?

The WITNESS: They are getting private mortgages and they do not come under the N.H.A.

By Mr. Johnston:

Q. But in order to acquire houses for people who need them, you would not see any objection to them working in this way to build their own homes, if they complied with the building requirements which were laid down by Central Mortgage and Housing Corporation?—A. They have my sympathy. I cannot build them a house because they cannot pay me.

Q. Therefore they should have the opportunity of building it themselves?—A. This Canada was built up with the pioneer spirit and it is a manifestation of that same spirit which is still among us. I cannot say I like it from my own selfish point of view, but if I was in their position I would do the same thing. I had to start from the bottom rung myself and I admire them. Here is my objection to it: They build homes using substandard materials and then may sell them.

The CHAIRMAN: But they do comply with local building regulations, do they not?

The WITNESS: Yes, they comply with local building regulations, but those regulations will say, for example, that tradesmen must put in the plumbing, and the wiring and the chimney must be flue-lined. Outside of that there is seldom additional local building by-laws of any consequence in the housing field.

The CHAIRMAN: Usually the complaint is that the local by-laws are too severe or too stringent.

The WITNESS: In some cases local by-laws across the country are keeping up the cost of housing.

The CHAIRMAN: That is what I say.

The WITNESS: And we hope that when this new code comes out, the builders in all the communities across Canada will take that building code to their mayors and councils and say: This is what we want. This is what has been recommended by the federal government and this is what we want.

The CHAIRMAN: Will that help you.

The WITNESS: Surely it will, because the public will be behind them.

The CHAIRMAN: Mr. Stewart.

Mr. STEWART (*Winnipeg North*): I should like to pursue a little further a question which was raised by Mr. Johnston on the second paragraph on page 7 in connection with the use of an older house market. How would you go about setting up such a market?

Mr. HUNTER: Why not consult a real estate agent?

By Mr. Stewart (Winnipeg North):

Q. I think you have something there. Have you given any consideration to the mechanics of setting up such a market?—A. Suppose you come to me, a contractor, and you have a house and say you would like to trade it on a new house. There will have to be N.H.A. money involved because it would be on a monthly payment plan to purchase from me. When I obtain that house I will sell it again under the N.H.A. But C.M.H.C. would have to put a value on that house to see if they were willing to put up a loan on it, plus consideration for the amount of money the contractor is going to spend on the house. If you want to trade your house you will have to accept their appraised value. As a contractor, if it is acceptable to me, I would take it and give you a new house. I would spend the money, which I would get from you by way of a down payment, on that house plus, it may be, a little of my own money. Then I would put it up for sale just as I would any other house. But before I take in that house, the whole financing scheme is arranged through the lending companies under the N.H.A.

Q. Have you tried to do that on your own?—A. Not on a long-term purchase; but during the depression years that is how we did it. We would build a new house and take in an old house. And many times we moved into that old house and lived there until we built another new house and had sold it.

Q. On page 9 of your brief you say:

A 3 bedroom and dinette house of 1090 square feet with basement garage on a typical lot valued at \$1,000, based on the estimates of two long-established and well known contractors, costs \$12,284.

That was for Victoria. Is that typical for such a house out there with a basement garage?—A. With 1090 square feet.

Q. And 3 bedrooms and a dinette with basement garage?—A. Yes, that is a typical house.

Q. I can remember very well building a five room bungalow in Winnipeg without a garage, for about \$10,005.—A. With five rooms?

Q. Yes.—A. How much would the land be worth?

Q. It would depend when the builder bought it. The lot might vary between \$500 and \$1,000.

Mr. HUNTER: Serviced land?

Mr. STEWART (*Winnipeg North*): Yes.

The WITNESS: We can build in Victoria a 5-room house of 1,000 feet anywhere from \$9,250 to \$10,000, according to the amenities which go into that house.

By Mr. Stewart (Winnipeg North):

Q. That would come under this mortgage ceiling of \$10,750 of C.M.H.C.?—

A. The other house has 5½ rooms and is spread out. It is a ranch type of house, the kind that people want. It is built for sale and you have to build exactly what people want. If you should come to me I could talk you into taking something but it might not please you.

Q. I am quite sure you could.—A. Thank you.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (Peterborough):

Q. I would like to ask a few questions. I wanted to ask regarding the inspections, but that has been pretty well covered. You mentioned a few minutes ago that the men who do this inspecting must know their building from the ground up. Do you feel that the insurance company lenders have a better knowledge of this than Central Mortgage and Housing?—A. Not necessarily. What I want to see is practical men in there. I think that some men who are in the loan companies are not practical. What the C.M.H.C. men are going to be, I do not know. But they need to be people who are thoroughly conversant with housing. You cannot learn it at a desk or out of a textbook.

Q. It has to be learned from practical experience?—A. It should be learned through practical experience in fairness to everyone.

Q. That is right.—A. Including the men who put up the insurance.

Q. Well, why not to the man who has to live in it, the man who is going to move into the house, because he is the one who gets stuck in the long run. The lender is protected by the insurance, and the builder is protected. But the man who is borrowing the money and is going to move into the house will not be protected.—A. I was reading over the evidence and at one point I saw a statement to the effect that a contractor put in a stairway 6 to 8 inches narrower than was called for by the specifications.

Q. There were a couple of examples of that.—A. I think the owner in such a case would be justified in saying that he would not take it. He could say: "There is the plan and there are the specifications."

I think that the contractor who did these things should be severely dealt with, and I feel that if there were a few examples such as that in a community, it would stop very quickly. I think that a practical inspector for that reason, if for no other, would adequately look after the interests of the owner.

Q. In that case, when Central Mortgage do not take the responsibility for all the inspection and the details, in case of a dispute, the purchaser would then have to take it up with the contractor.

Mr. HUNTER: Let him employ a good lawyer.

By Mr. Fraser (Peterborough)

Q. Supposing the contractor would not come across, then the purchaser would have to go to law about it. That would be good business for the lawyer but not for the man who was buying the house.—A. Did you ever build a house?

Q. Yes, many of them.—A. Well, you know what women are. They are around every day looking pretty closely at things. You would have to be a pretty smart contractor to put very much over the average woman. You might

trip her up on the amount of cement content in your stucco and cement, but when it comes to the size of windows and rooms and doors, you do not need to worry very much.

Q. You are evidently a man of experience.—A. Yes.

Q. Can you tell what city in Canada the building costs are the lowest?—A. No, I could not tell you that sir, but I would judge that the building costs in the Maritimes are lower than anywhere else.

Q. Would they be higher in Victoria on account of the shipping of plumbing fixtures and things like that?

MR. BRUNET: The wage rates in Victoria are amongst the highest in Canada in construction.

By Mr. Fraser (Peterborough)

Q. Where are the lowest rates?—A. In the Maritimes and in the province of Quebec, outside of Montreal and Hull.

Q. On page three you say here:

In view of the vital importance of improved housing facilities, it is most desirable that those groups within the economy who provide the money, designs, materials and construction services should have some medium through which to co-ordinate and present their views to the Federal authorities on a continuing basis.

What do you have in mind there? That is on page 3, section three.—A. Well, the industry has problems of land assembly and rising costs, and the ability of the man to pay. There is a difference in culture across the country. The conception of a minimum housing requirement varies. There must be some medium where that can be brought to a committee and it can be discussed so that when the government makes proposed legislation it is exactly what the industry needs.

Q. You feel that Central Mortgage and Housing Corporation should make available to you and to the rest of the industry some time during each year a time and a place so that you could come and place your views and your difficulties before Central Mortgage and Housing Corporation in respect to this?—A. I think that the C.C.A. and the National House Builders would gladly set up a committee that would discuss with the various exchanges across the country the peculiar problems of our industry, and that one member of these committees should be on an advisory committee and on that committee would be representatives of finance and manufacturers of building materials, so that we could pool our information and give it as a committee to the Central Mortgage and Housing Corporation.

Q. Central Mortgage and Housing Corporation should sit in on the committee?—A. Yes, they would be the chairmen of the committee.

Q. In that case do you feel that an action of that kind would be such that a recommendation should be made that the Act should be changed with those recommendations. Is that what you would like to see?—A. As I understand it there is a section in the Act now that is not operating and could be made operative.

Q. You agree on that?—A. Yes.

Q. Mr. Johnston mentioned bonding the contractor and I think he felt that if you are a good contractor—and he believed you were—you would not need to be bonded but some would?—A. Yes.

Q. Is it not true that only the large contractors doing big contracting jobs are bonded?—A. That is true.

Q. It is a performance bond?—A. Yes.

The CHAIRMAN: Mr. Cardin, Mr. Hunter, Mr. Philpott, Mr. Robichaud, and Mr. Balcom.

By Mr. Cardin:

Q. On page three, at the bottom of the page, I read:

It is the industry's responsibility to see that costs are not increased so as to nullify the advantages given purchasers of new homes by the proposed amendments and to play the leading role in the provision of new dwelling units.

I must say that I fully agree with that statement and I was very much interested to hear of the C.C.A.'s intention of getting together with Central Mortgage and Housing Corporation and coming to some understanding of the problem of rising costs of construction, but I would like to know has the C.C.A. in the past ever computed the percentage of increase in the cost of construction? Have they ever studied the reasons why construction costs have risen in the past, say in the past 10 or 20 years?—A. Well, it is a touchy point. I might as well bring it up. In Victoria in 1939 we paid carpenters 80 cents per hour, there were no holidays with pay, and that was before the time of unemployment insurance. Today we are signing a new contract. I was told not to divulge it until labour had mentioned to their membership what it would be, but we are now paying \$2.10 an hour and we are going to pay an increase. It is modest to what they have been demanding in the past. We have found in Victoria a far more co-operative approach in our negotiations on wages this year, for which we are thankful.

Q. Do you say that wages were the main reason why the cost of construction came up?—A. Well, I was coming to lumber. We were paying for common dimension lumber in the neighbourhood of \$22 a 1,000 in 1939. Today we are paying approximately \$70.

Mr. FRASER (*Peterborough*): What kind of lumber?

The WITNESS: Dimensional, 2 by 4, shiplap, 2 by 8 for joists, and 2 by 6 for rafters.

Mr. HELLYER: Do you know of any way we can get it down east at that figure?

The WITNESS: You could get the railways to haul it for nothing. Does that not show you what has brought up the costs, the cost of lumber?

By Mr. Cardin:

Q. It is hard to say that it is definitely one thing. I want to know if the C.C.A. had studied the problem in order to be able to take on its responsibility of avoiding the increase in the cost of construction?

Mr. BRUNET: We never made a detailed study because the contractor and the builder are very individualistic fellows and one thing that they keep to their own knowledge is the cost of a project even before they bid on it and even after they do. But, we base our analysis of the situation on the information obtained from the federal Bureau of Statistics who have a very fine figure for each year for a long period up to December last year. If you see them you will notice that the rising cost of construction is in direct relationship to the high cost of living. If you want me to broaden my statement, in building a house or a school or a hospital, in the final analysis there is between 80 or 85 per cent of it labour. If you take all the material that goes in, not only on-site but also off-site, the biggest item is labour, not only at the contractor's level but all over. I can just now buy number one construction sand in the pit for 15 cents a yard. I have to haul in four miles. On my site

it costs me \$1.20 for the same sand. Here is the difference: there is the steamshovel digging the sand in the pit, then the big trucks haul the sand to my job, and there is labour connected with it. So, the biggest factor in construction costs is labour.

Mr. CARDIN: I understand that there are certain building materials that have increased reasonably, but there are others whose increases are unreasonable, and I mentioned some of them this morning. In particular it had to do with electrical fixtures, plumbing, and lumber as one of the witnesses testified. There are some materials that have greatly increased, and I wish to ask the question asked by the chairman this morning. Would it be a fair question to ask you if you or the C.C.A. feel that combines would be the cause of the exaggerated increase in the cost of certain materials?

Mr. BRUNET: It is difficult to answer that question. I would not like to use the word "combine," but I feel that in certain categories of material there is a very good understanding and spirit of cooperation between the different manufacturers.

The CHAIRMAN: I think that is a very fair statement, Mr. Brunet; yes, a very fair statement. We will leave it at that.

Mr. CARDIN: Does the C.C.A. feel that the actual high cost of construction can be a very important reason why a good part of our population cannot profit by the housing legislation?

Mr. BRUNET: I would answer that this way, sir. Even if we reduce the cost of the construction of a house by 10 per cent, in the next year that same house may be exactly the same price because the buyers are requiring more and more all the time in the house. One of the members was asking about the electrical equipment. Now, 40 years ago when my father was building good houses, the owner would think that he got a very fine lighting system if he had 12 outlets in the house. Today we are putting in every room in the ordinary house as many as six and seven outlets, because the owner has a radio, and his wife prefers lamp fixtures instead of a ceiling fixture, and also because they have a television set, a portable plug-in telephone that can be moved from one room to the other, and so forth. I think it has been a miracle that we have been able to keep the cost at the figure it is, considering how handicapped we have been.

You were speaking about a combine. It is not a combine, because there is much competition among construction companies. There is little or no competition among construction labouring men. You have to pay them at least \$2 an hour whether they are good or bad workers, but the contractor in order to secure a job has to be pretty effective.

The CHAIRMAN: Mr. Brunet, let me give you a few figures. These are Dominion Bureau of Statistic figures from 1946 to 1950, indicating that the cost in the construction industry during that time went up 55.3 per cent.

Mr. BRUNET: Well, do you mind if I take a few notes?

The CHAIRMAN: It will all be in the record; 55.3. I will talk about general construction rates and I will talk about general hourly rates. General hourly rates during that period went up 93 per cent. Construction rates in the same period went up 55 per cent. Construction material went up 88.4 per cent, and at the same time electrical fixtures went up 43.4 per cent. Plumbing and heating went up 50 per cent, roofing materials 79 per cent, lumber products 157.2 per cent, brick and tile some 17.8 per cent, laths 17 per cent, paint and glass 15 per cent and cement and gravel 12 per cent. Now you have the figures?

Mr. BRUNET: Yes.

The CHAIRMAN: Do you agree with those figures at all?

Mr. BRUNET: Yes, they are not on the same basis, but they come to the same result.

The CHAIRMAN: So, when you suggest that labour is responsible for so large a portion of the increase in the cost of housing, do these figures bear out your opinion?

Mr. BRUNET: Well, they do, sir. When you take into consideration that when you are talking about plumbing fixtures for instance, it isn't the amount of glass or steel that goes into them at so much a pound, but it is the manufacturing part which is the expensive process. That is where your labour comes in.

The CHAIRMAN: Did you notice that the plumbing fixtures we were talking about went up only 50 per cent. That was a little less than the construction, but the cost of construction on the job went up 55 per cent?

Mr. BRUNET: That is right, according to those statistics. You will notice, sir, that the cost of materials always goes up faster than the cost of wages. The wages are generally six months behind.

The CHAIRMAN: Have you read the report of the evidence given by Mr. Mansur in which he talks about wages and productivity?

Mr. BRUNET: I am sorry, I did not read it.

The CHAIRMAN: I think it is worth reading, because it is important. We attach a great deal of importance to all of Mr. Mansur's evidence, but this was particularly pertinent. These were questions asked by Mr. Thatcher, and by Mr. Fleming, which I read this morning. Mr. Thatcher asked the following question which appears on page 154 of the evidence:

Statements have been made that labour costs in the housing field are getting so high that if they go much higher there will be a danger that they would price themselves out of the market. Do you think there is any validity to that statement or are we getting anywhere near that position?—A. Once again, Mr. Thatcher, I think the wage rate is just one factor. I suggest to you there was less actual labour cost in a house built in 1953 than there was labour cost in a house built in 1951, notwithstanding the fact that the wage rates were higher in 1953 than in 1951.

By Mr. Fleming:

Q. To clear up the last answer, are you speaking absolutely or relatively?—A. What I mean by that, Mr. Fleming, is, I believe the increased productivity has outrun the increase in the hourly wage rate.

Do you agree with that?

Mr. BRUNET: I agree, because we use more machinery and we are getting more efficient in our work every year. We have better equipment and machinery and lots of labour-saving shortcuts. To take the actual labour that is done on the job, then has been no increase in the efficiency of labour itself.

The CHAIRMAN: When you say there is no increase in efficiency, it may be a prejudice rather than a fact. Mr. Hunter.

By Mr. Hunter:

Q. Mr. Leigh, I wonder if you could tell me how many members of the C.C.A. are merchant builders?—A. We have not those figures with us.

Q. Would it be a small percentage or a high percentage?—A. We have an indirect membership in the C.C.A. of members who belong to local builders'

exchanges, which in turn belong to C.C.A. Now, in the direct membership of the C.C.A. there would not be many, but in the membership of the local exchanges, the membership would be considerable.

Q. Would you say your organization is more representative of the construction industry other than housing, or is it representative of the housing industry?

Mr. BRUNET: No, sir. Our biggest representation is in the industrial and commercial, institutional, hospitals, schools, and things like that.

By Mr. Hunter:

Q. You have expressed an opinion that many people, some people anyway, are prevented from buying houses by the size of the debt service. I wondered if you were able to give us any figures as to how many people have been prevented by reason of the size of the debt service?—A. I could not give you any accurate figure on that. But the fact that we have so many weekend builders in Victoria should be proof positive that there are many who cannot look after the debt service.

Q. But you have no figures on that?—A. No figures.

Q. On page 7 you recommend that they have this particular house trade-in arrangement, and that has been explained. I wonder why you feel it is necessary? What is the reason behind your feeling that it is necessary to have this house trade-in arrangement? Is it because of social reasons or because you think it would increase the effective demand for housing?—A. I think more for social reasons. Every time you sell a new house and take in an old one and sell it, you have two families whose housing problems are solved; whereas if you just build a new house, you have only solved one.

Q. You are thinking more of the general public than of the building trade?—A. I would prefer to build a new house, and so would any other builder in the country.

Q. Do you think that merchant builders are those who are producing the greatest number of houses?—A. In the large centres.

Q. Yes. And that is where a larger number of housing units are constructed.—A. But consider the rest of Canada. There are lots of houses built outside of the main centres. The number is impressive. I could not say what it is, but the number would be impressive if it were compiled.

Q. I take it it is fair to say that these merchant builders invariably restrict themselves to the construction of housing units?—A. Houses.

Q. Houses, housing units, and apartments?—A. Yes.

Q. And that the proposed increase in housing would have but little effect on other forms of construction because they are only in that one field anyway.—A. Yes.

Q. So if the materials were available, and if this construction increased, let us say, to the extent of 25,000 housing units you think there would be but little effect on other construction?—A. That is my opinion.

Q. Yes. That is all.

The CHAIRMAN: Mr. Philpott.

By Mr. Philpott:

Q. Mr. Leigh, it seems to me that your brief is very remarkable in this respect that, among all the briefs which have been presented to us your brief is the most optimistic. You suggest that national housing in the past has done a great deal for housing in Canada and you are optimistic no matter what the wage increase may be. Which you have been talking about, and which is going into effect in Victoria, out on the west coast, or what the general opinion

is on the west coast, you think that we are going to have a pretty good year in housing?—A. The feeling among the contractors is that we are going to have a good year.

Q. In other words, you, as a hard headed businessman would not find any agreement to pay more wages if you thought that a great amount of unemployment which people are talking about is going to accrue?—A. No.

Q. Well, there is just one point lacking in your brief. You say that your members carry out most of the large scale construction in Canada on big projects. Am I right?—A. Yes.

Q. There is no mention in your brief at all of section 36 of the new bill, which is section 35 of the Old Act, and which covers subsidized rentals.

Mr. PHILPOTT: Could we not develop that a bit. Would it not be an advantage to everybody? You are interested in more construction and we are interested in more houses for anybody who is able to buy them or rent them. Do you think that your association in the past has really pushed this thing as it could have been pushed? Here is this provision on the statute books of Canada right now, and here is all this money available in what amounts to a fairly generous scheme of housing; and you people are interested in building houses no matter what may happen to them afterwards, so long as you get paid for them. Would it not have really paid your association to get in and push and get these things really going?

Mr. BRUNET: That is right, we did recommend the provisions in Section 35 to the government.

The CHAIRMAN: Mr. Wood?

Mr. WOOD: Well, I have had some of my questions answered. I was just wondering if Mr. Leigh would like to make an approximate estimate of what he thinks is the backlog of housing units in Canada?

The WITNESS: It is almost impossible for me to make a statement on that.

Mr. WOOD: You would not want to make an estimate?

The WITNESS: I am out on the Pacific coast and I do not know what the problem is back here where the big problem is. We have not got the figures.

Mr. WOOD: Mr. Fraser gave us an estimate this morning of 500,000 and I would like to know what percentage of that 500,000 would come from applications of people who had an income of \$60 a week or over.

The WITNESS: I think their brief has illustrated that those earning \$60 a week or over could afford to buy a house.

Mr. WOOD: Yes, that is right. Those are the ones who can buy a house. I want to know what percentage will not be able to buy a house.

The WITNESS: I thought you asked me how many of those who were earning \$60 a week or over were needing a house.

Mr. WOOD: That comes into the question of the entire backlog. I was interested in getting an estimate of what proportion of that backlog would be in a class that would be eligible to get a loan?

The WITNESS: It is very difficult for me to answer that, but I will say this: that if I put an advertisement in a newspaper tomorrow stating that I would build houses, I would have a continual stream of people in my office most of whom would be people who cannot afford to build under the present day regulations.

The CHAIRMAN: That concludes our hearing for this afternoon. I desire on your behalf to thank Mr. Leigh, Mr. Brunet and Mr. Chutter for appearing before us and answering our questions.

The agenda committee is meeting immediately.

Canada - Banking and Commerce
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

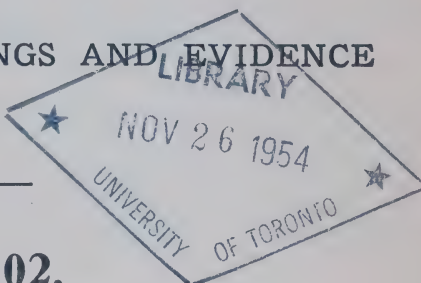
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13



BILL 102.

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

FRIDAY, FEBRUARY 26, 1954

WITNESSES:

Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation;
Mr. J. O. Asselin, President, and Mr. George S. Mooney, Executive Director,
of the Canadian Federation of Mayors and Municipalities.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

MINUTES OF PROCEEDINGS

Friday, February 26, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs Adamson, Ashbourne, Balcom, Boucher (*Restigouche-Madawaska*), Breton, Cardin, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hees, Hellyer, Huffman, Low, Johnston (*Bow River*), Macdonnell, McIlraith, Mitchell (*London*), Noseworthy, Pouliot, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation; Mr. J. O. Asselin, President, and Mr. George S. Mooney, Executive Director, of the Canadian Federation of Mayors and Municipalities.

The Committee resumed consideration of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Mansur was recalled and further questioned on the Mortgage Insurance Reserve Fund, additional problems of administration in the Central Mortgage and Housing Corporation arising out of Bill 102 and the possibility of increasing the annual production of houses to 125,000 with particular regard to possible inflationary pressures, effect on other kinds of construction, and the capacity of the housing market to absorb economically and finance 125,000 houses per annum under present conditions.

Mr. Mansur then answered the following questions reserved at previous meetings for a detailed reply:

Mr. FLEMING: "List of Municipalities with Investments in Limited Dividend Companies".

(See Evidence)

Mr. ADAMSON: "Comparison of Present Insured Lending under F.H.A. (U.S.A.) and the proposed procedure under Bill 102 (Canada)"

(See Evidence)

Mr. GAGNON: "Start and Completions per 1,000 Population by Province, Canada, 1952 and 1953".

(See Evidence)

The Witness made a statement in clarification of evidence given by him on February 11 (*Minutes of Proceedings and Evidence No. 5*) with respect to the respective guarantees in the home ownership and rental housing fields.

The following documents were tabled by the Witness and ordered to be printed as appendices to this day's evidence:

"Summary of Housing Bill—S.2938
Senate of the United States of America"—Appendix "A"

A letter, dated January 14, 1954, from The Dominion Mortgage and Investments Association containing suggested amendments to the National Housing Act, 1954—Bill 102, Insured Mortgage Loans—Appendix "B"

Mr. Mansur was then retired, subject to recall.

Messrs. Asselin and Mooney were called.

Mr. Asselin presented a submission on the Bill under consideration and was examined thereon, assisted by Mr. Mooney.

At 1.00 o'clock p.m., the examination of the witnesses still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Cröll, Chairman, presided.

Members present: Messrs. Balcom, Boucher (*Restigouche-Madawaska*), Dumas, Gagnon, Hanna, Hellyer, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Philpott, Pouliot, Quelch, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Same as at morning sitting.

The examination of Mr. Asselin and Mr. Mooney was continued.

At 4.20 o'clock p.m., the examination of the witnesses being concluded, they were retired, and the Committee adjourned to meet again at 3.30 o'clock p.m., Monday, March 1, 1954.

R. J. GRATRIX,
Clerk of the Committee

EVIDENCE

FEBRUARY 26, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. There is a slight change in our program. We had a meeting of the agenda committee yesterday, and we decided that from 11.00 a.m. to about 12 p.m. today, Mr. Mansur would be our witness. Mr. Fleming desired an opportunity to conclude his questioning. I hope he can do it in about 10 or 15 minutes.

Mr. FLEMING: Or less?

The CHAIRMAN: Then there will be answers to questions asked by various members, and then Mr. Mansur will be prepared to give answers to questions with respect to the regulations that are now in effect, both with respect to the national housing regulations and the defence workers' loan regulations. In respect to the matter of guarantees you will recall that at page 23 of the evidence Mr. Mansur gave a hypothetical example of loan processing and loss settlement. At 12 o'clock we will have the brief from the Canadian Federation of Mayors and Municipalities which will be followed by some questioning, and we will conclude early this afternoon. When we are finished today, we will adjourn until Monday at 3.30 p.m., at which time we will deal with the bill section by section. That will be at 3.30 p.m. Monday afternoon, remember.

All right, Mr. Fleming.

Mr. D. B. Mansur, President of Central Mortgage and Housing Corporation, called:

By Mr. Fleming:

Q. Mr. Mansur, in your last statement submitted to the committee you made some reference to the Mortgage Insurance Reserve Fund. Would you take up that subject in detail and tell us exactly what is going to be done with those insurance premiums from the time they are calculated and collected right down through the various stages until ultimate disposal thereof?—A. When the lender makes the first advance to the borrower there will be a payment of the premium on that portion of the advance. The payment will be made to Central Mortgage. As the progress advances go on, the premiums will be paid to Central Mortgage and they will then be deposited in a bank account.

Q. Excuse me a moment, Mr. Mansur. In that collection, what is the procedure on the payment? Is it going to be collected by the mortgagee?—A. The procedure Mr. Fleming suggested, with which I think the approved lenders agree, is that when the solicitor makes the mortgage advance, he will make an advance of \$3,000 to the borrower and \$60 to us. I mean, that when the mortgage advances are being made by the solicitor, for every hundred cents he advances to the borrower, he will advance 2 cents to us which will go into the insurance fund.

Q. In other words, the advance will not be in the round figures to which we are accustomed. There will be an odd amount and it will be that odd amount which will be remitted by the solicitor, who is the solicitor for the mortgage, to Central Mortgage?—A. That is correct, yes.

Q. That will be done simultaneously with the advance to the mortgagor?—A. It was thought by the approved lenders that that was the neatest way to handle it, and the way which would involve the least bookkeeping.

Then, the premiums in this fund, will be segregated from the other assets of the corporation, and, as provided by section 11, will be invested in securities of, or guaranteed by Canada. When a claim arises, the approved lender will be paid in accordance with section 9, and the foreclosed property will be transferred into the fund as one of its assets. If that foreclosed property is subsequently sold then the proceeds of that sale will be a credit to the insurance fund.

Q. This, I presume, is all subject to the regulations which are to be issued?—A. I think that the procedure as to the handling of the moneys after they are paid to us, is covered in section 11. As to the manner in which the approved lender makes payment to Central Mortgage, that will be a matter for regulation.

Q. There is no thought that any part of this Mortgage Insurance Reserve Fund will ever go into the Consolidated Revenue Fund?—A. No, it is contemplated it will be a separate fund on the books of Central Mortgage and clearly identifiable.

Q. And payments will be made out of that fund simply by cheque drawn by the signing officers of Central Mortgage and Housing Corporation?—A. That is correct.

Q. Then you spoke of the other assets, title to properties acquired following realization under guarantee? I suppose it is too early yet to ask about any policy you expect to follow with reference to realization on assets so acquired?—A. I think the policy will be a varying policy, depending on economic circumstances of different times. I would be surprised if there were not a tendency, however, to try and keep paper assets in the insurance fund, rather than real property. In other words, I think the natural trend would be for us to attempt to move the foreclosed properties into the hands of new owners, subject either to an agreement for sale or a mortgage.

Q. Well, it may be that questions of this kind are a little premature and you will have to be guided by your experience and conditions. Now, the matter of taking possession on the part of the mortgagee has been the subject of some questions and also some apprehension has been expressed, as you have heard, in the committee from time to time. I know you cannot speak concerning policy in this respect. I think probably you will agree there is a danger in rigidity in provisions of this kind?—A. Yes, I think an over degree of rigidity, yes, but I think there must be like treatment between all approved lenders and there must be a policy to be followed at all times.

Q. Yes, I appreciate that. I suppose that is one of the inherent problems in dealing with a situation on a national basis, that if you are going to avoid discrimination you may encounter situations where pursuant to some general policy hardship will be inflicted in individual cases. I am not asking you to comment on that; I presume that will be a matter for the minister when we come to the discussion on the bill, but have you any comment to make as to the provisions made with respect to realization? I think it is fair to ask you, for instance, as to the adequacy of \$125 for the costs of foreclosure in acquiring title. Isn't that going to involve inevitably a loss to the mortgagee in realizing?—A. In that connection, Mr. Fleming, I think it should be remembered that it is \$125 for each case, whether foreclosure or quit claim is involved, so that it is probable that the approved lenders may make up on "the swings" what they lose on "the roundabouts." I would guess, though, that in the aggregate there is a bit of co-insurance in respect to the allowance for foreclosure fees. On the other hand, you will notice that the \$125 is in

lieu of taxed legal costs, and taxed legal disbursements are an addition to the \$125. My final comment is that the allowance of \$125 plus taxed legal disbursements is just that much more than in the United States, where the allowance for foreclosure under a similar plan is "nil".

Q. You are treating the word "costs" as meaning only fees, and not disbursements?—A. The \$125 is a flat allowance for fees. To the \$125 are added taxed legal disbursements.

Q. That is the intention of the legislation. We can come to that when we get to the details of the bill. This next point has not been discussed in the committee, as far as I am aware, Mr. Mansur, though I mentioned it in the House. It is that bracket of mortgages between 60 per cent and 69 per cent of lending value. Now, in ordinary practice I think it is clear that on adequate lending value a mortgagor will be able to obtain a conventional loan up to 60 per cent of such lending value. The bill permits you to go down to the minimum of 70 per cent of lending value on a mortgage. What is likely to be the fate of those who do not require 70 per cent of the lending value by way of mortgage but do require more than 60 per cent available on a conventional loan? There is a hiatus there, that it seems is going to compel those who need something more than 60 per cent to take a full 70 per cent whether they want it or not. Can you make a comment on that?—A. I think, Mr. Fleming, a gap does exist theoretically between the top of the conventional ratios allowed by the Insurance Act and the Trust Companies Act and the minimum under the insured mortgage technique. The elimination of that gap would necessitate the drop of insured mortgages down to 60 per cent as a minimum. I believe that quite a good case can be made against asking a borrower to pay a premium to insure a mortgage where the ratio is as low as 61 per cent. I think it was that factor, Mr. Fleming, which led the government to believe that 70 per cent was an appropriate minimum.

The second comment I would make is this, that in the actual operations it is quite likely that if a borrower has applied for a minimum loan he may at a subsequent stage, while the loan is being advanced, see that he does not need all the moneys that he might draw down under the loan, in which event the loan will be closed out at a lesser amount if the borrower refuses to take moneys which he now finds he does not need, in which case—

Q. May I interrupt you there, Mr. Mansur? Aren't there going to be problems there, because the mortgage has already been executed and registered before even the first advance is made? The amount of the mortgage is the amount originally approved and the provision for prepayment is set up so that it permits a reduction of the period over which the payments are to be made but not any reduction in the amount of monthly payments.—A. Yes. I was thinking rather more, Mr. Fleming, of the cases which we now have under the National Housing Act, and I am sure we will have under Bill 102, where the mortgage has been approved for \$10,000 and the advances are never paid out in full. There is quite a substantial percentage of mortgages that are never fully paid out, particularly in the home ownership field. In the home purchaser field, generally the mortgage is advanced in full. Now, as one other factor, Mr. Fleming, I think it is to be remembered that the conventional appraisals are pretty elastic and I am not at all sure but that the very elasticity of those appraisals may carry some of these loans a bit over the 60 per cent, getting them up to the 70 per cent minimum. But, Mr. Fleming, I agree with you that theoretically there is a gap between the top of the conventional authority and the bottom of the Bill 102 authority.

Q. I would be prepared to go with you a part of the way on that. I can appreciate that there is some elasticity on the conventional loan. Perhaps it may be squeezed up three or four per cent, but take the man who, say, needs more

than the 60 per cent; let us say he needs 65 per cent. Assume he cannot obtain more than 60 per cent, even shopping around several lending institutions, and he does not want to take on a mortgage of 70 per cent. Here is a man who is not provided for in this set-up that we are planning now. I do not think it is policy to make these people take out a larger mortgage than they really need, and under those circumstances it strikes me that this individual is going to be compelled to take 70 per cent. Now, are you contemplating under those conditions continuation of the sort of situation that exists under the joint loan scheme, where, say, the mortgagor decides not to take the full amount of the last advance?—A. That is what I think will happen in practice.

Q. Take the individual who wants 65 per cent, having drawn in the previous advances plus the portion that he is taking of his final advance, the 65 per cent, then does not want the difference between the 65 per cent and the 70 per cent? What will be done at that point, because in your paper work you will at that time have approved insurance on a loan of 70 per cent?—A. There is provision in Bill 102, Mr. Fleming, that insurance shall be issued by Central Mortgage and Housing Corporation where the borrower refuses to take some of the advances which are due to him under the approved loan.

Q. Well, there is going to be much paper work in these cases?

The CHAIRMAN: There always is.

By Mr. Fleming:

Q. Especially in cases such as this. And I am wondering if it is desirable to insist on this rigid minimum of 70 per cent in the terms of legislation. I can see some element of public policy here and I am not asking you to comment on the policy angle—in not trying to advance more public money than is necessary, on the one hand, and, on the other hand, not wanting people to be pledging their credit or assuming more in the way of indebtedness than is desirable. I mentioned this point in the House, but it has not been discussed so far in the committee by any witness. There is a gap here and I wonder if there is not something which can be done to meet the reasonable needs of people in that particular bracket without disturbing the main purpose of the legislation—A. I have already said that I agree that there is a gap, Mr. Fleming. But on the other hand, if you took insured mortgage loans down to 60 per cent, then I think there is some danger that you would find that lending institutions would be insuring, as a matter of course, their limit conventional loans.

Q. I agree with you there. I do not think you can extent the full insurance principle down to 60 per cent.—A. No.

Q. There is too much temptation there to up-grade the loan to get the benefit of the insurance if over 60 per cent; but it may be that there is no real solution to the particular problem of the gap. However, I do feel it is something which should be taken into account.

You spoke of the solicitor making advances. Is there anything which would interfere under the insurance set-up in the selection by the mortgagee of his solicitor?—A. None whatsoever. The solicitor in every case will be the nominee of the approved lender.

Q. This new scheme is going to involve, I am sure, a very great problem in the way of administration by Central Mortgage. We have touched to some extent on the matter of the inspections and the very much increased weight of inspection duty you are going to undertake. And I am sure that is not all. Would you tell us what provision you are making for meeting the problem of administration?—A. Well, Mr. Fleming, when we were discussing this matter on January 31, I am afraid that I gave you an improper impression as to the size of our present staff of inspectors. In reading over the evidence I gather the impression that I told you that we had some 200 of them, and I certainly left the impression that they were all on N.H.A. work.

Q. Yes.—A. But that is not correct. Right now we have 70 inspectors on our N.H.A. work and we have 170 inspectors on our D.C.L. work; and in addition we have 13 inspectors who specialize in sewers, water and ground services.

What I tried to convey at that time was that as we move out of our D.C.L. responsibilities, we are going to be able to draw upon this pool of 183 inspectors and to supplement our N.H.A. operations by people who are presently engaged on D.C.L. operations.

I think the point you raise really deals much more with our branch office organization. At the moment we have 31 branch offices. We realize that under this new arrangement we must do much more to be closer not only to the field of operations and the borrowers but also to the lenders who will move up in quantity by many times as a result of the addition of the branches of the chartered banks.

We have measured areas by the gross number of starts, starts under the National Housing Act, and property administered by Central Mortgage and Housing Corporation and we have tried to treat the areas as trading areas. From all these factors, we believe we should have 81 offices of which 55 will be branch offices, and 26 will be loans offices. The distinction between a loan office and a branch office is that the loan office operates as a sub-branch office under the responsibility of one of the branch offices.

We have had some difficulty in coming to a conclusion on this matter. It may be that our organization will be a bit bigger than is necessary and it may not be quite large enough, but we have attempted to visualize how Bill 102 will work, and we have attempted to set up an organization that will give proper services to borrower and lender.

I have with me, Mr. Chairman, a list of the new offices which we contemplate, and if Mr. Fleming wishes, I will be glad to offer it to be included in to-day's record.

The CHAIRMAN: Yes, it will be placed on the record.

By Mr. Fleming:

Q. Have you been able to distribute them nationally?—A. Yes.

Q. I can appreciate there would have to be some flexibility to allow for developments as you encounter them, but are these provisions which you have made ready to be put into operation on very short notice now?—A. The day after Royal Assent, if the government decides to proclaim the legislation immediately after Royal Assent.

By Mr. Low:

Mr. Chairman, perhaps we should have the list read at this point because I think it would be interesting to the committee.

The CHAIRMAN: Very well.

The WITNESS: I shall read the new ones only: Gander, Corner Brook, Sydney, Kentville, Bathurst, Fredericton, Rimouski, Granby, four offices on the Island of Montreal, St. Jerome, a separate office in Hull, Renfrew, Cornwall, Belleville, four offices in Toronto instead of the one which we have at present, Orillia, Niagara Falls, Guelph, Brantford, Stratford, Woodstock, Chatham, Sudbury, Sault Ste Marie, Atikokan, Kenora Geraldton, Brandon, Yorkton, Moose Jaw, Swift Current, Prince Albert, Medicine Hat, Red Deer, Grande Prairie, Cranbrook, Kamloops, Kitimat, Prince George, New Westminster, Chilliwack, three offices in Vancouver area, and Nanaimo.

Mr. Low: Thank you.

By Mr. Fleming:

Q. You heard evidence given yesterday afternoon concerning the possibility of increasing our annual production of houses to 125,000, which was said to be the capacity of the housing building industry in Canada. I presume you have given as much study to that problem as any of those who have appeared before us. I would like, if you can, to hear you state briefly what you think of the possibility of attaining that goal, and in particular with regard to three aspects of it: first of all, whether it can be done within a measurable period without giving rise to inflationary pressures; second, as to whether it could be done without reducing construction activity of other kinds than housing construction; and third, what is the capacity of the housing market to absorb economically and to finance 125,000 houses per annum under present conditions, or conditions resembling those which we now enjoy or can foresee?—A. I believe that there is considerable excess capacity in the present house building industry. I believe that the managerial talents within the house building industry could readily be expanded tomorrow morning to put house building on a basis of 125,000 units a year. I know of very few builders who could not take on another 10, 15 or 20 per cent as far as the managerial talents are concerned. In order to do so they would have to attract some labour to increase their labour force, and in that respect I do not think very great difficulty exists.

The CHAIRMAN: We all agree on that.

The WITNESS: It is a matter of opinion, but I would think that in a community like Ottawa where starts are at the rate of 2,000 units a year, if mortgage funds were flowing easily and if there were plenty of serviced land, and if the builders liked the look of the market that there would be very little problem here in Ottawa in moving house construction from 2,000 to say 2,500 or even 3,000 units.

As to the inflationary characteristics which might accompany any move up, say, from 100,000 to 125,000 units, I believe that building materials and building labour are in sufficient supply at the moment that the addition of 25,000 units—which after all involves about 25,000 man-years on site—would have a very little inflationary potential.

Now, I do not believe that increasing the house building rate from 100,000 to 125,000 would have the effect of reducing construction in other fields. I think that there is sufficient looseness in the labour supply at the moment to avoid such a contingency.

As to capacity to absorb—

Mr. FLEMING: I said economic capacity; that is capacity to absorb economically.

The WITNESS: I believe that the purchasers and the renters of new housing as at the moment are of large enough numbers to absorb 125,000 units.

That is the last question?

By Mr. Fleming:

Q. Yes. Was that last answer on the basis that it would not create any inflationary pressure?—A. I do not think there would be any inflationary pressure. I agree with the remarks made yesterday on this.

Q. Thank you. That is a very clear answer, Mr. Mansur. I have two more questions. Have you any further comments to make on this subject of backlog, particularly in the light of the evidence given by Mr. Forsey on

Tuesday?—A. I thought Mr. Forsey's very able evidence on Tuesday gave a great deal of weight to a statement which I made when we were dealing with that matter. There is plenty of room for difference in views. I think Mr. Forsey did a very good job in trying to edge me up a little. I cannot fight with Mr. Forsey's approach. I do not think his approach is as good as mine but I am sure he thinks the reverse. It has not changed my mind very much, but I was full of admiration for the very ingenious way in which he tried to shake some of the statements I made.

Q. You have heard the evidence given before the committee by all the witnesses we have heard. Many of them commented on subjects respecting which you have already given testimony and expressed opinion. In the light of that evidence is there any of your evidence or any of the opinions you stated before this committee which you wish to modify or comment on in any way?

The CHAIRMAN: Would it not be better if we waited until we dealt with the sections individually when some of these matters will automatically arise.

By Mr. Fleming:

Q. I was just wondering if there were any matters. For instance, we heard Mr. Mansur comment on Mr. Forsey's evidence in relation to backlog, but I wondered if there were any points in particular which struck Mr. Mansur which would lead him to make any comment. We have heard from quite a variety of witnesses over a matter of weeks.—A. I think your question divides sharply into two parts. At first I thought you wanted to know whether the evidence of other witnesses changed my mind in respect to some of the evidence which I had given. Your subsequent question indicates,—have I any comment on some of the things that were said? And the answer to that is plenty.

Q. I appreciate that that would open up a wide field. I think it is only fair to you, in view of the fact that your opinions were expressed and your evidence was given before you heard these other witnesses, that you should have opportunity to say whether in all cases you are standing on the evidence exactly as you gave it, or whether your views or evidence in any way have been modified by what you have heard from these other witnesses over the past weeks.—A. I do not think I want to change any of my evidence, including that on the backlog.

Q. You understand that when I ask you whether your views have been modified I do not mean anything apart from the effect which the expression of views of others sometimes has on one's opinions.

A. Mr. Fleming, I think there were some views expressed which reflected the varying degrees of Social philosophy of different people. I do not think there was anything said that has changed my mind in respect to any particular point.

The CHAIRMAN: Mr. Mansur, now may we have the outstanding answers?

The WITNESS: Mr. Chairman, Mr. Fleming asked if I would produce a list of Ontario municipalities which have an investment on municipal account in limited dividend companies. The list includes Brantford, Hamilton, there in Ottawa, one in Owen Sound, one in Windsor, one in York township.

Mr. FLEMING: Is there any more detail?

The CHAIRMAN: It will be placed on the record.

MUNICIPALITIES WITH INVESTMENTS IN L. D. COMPANIES

<i>Municipality</i>	<i>Limited Dividend Company</i>	<i>No. of Units</i>	<i>Rent Range</i>
Brantford	Brantford Housing Company Limited..	32 *	\$25.50 per unit
Hamilton	Hamilton Housing Company Limited..	16 *	\$35.50 per unit
Ottawa	Lowren Housing Company Limited....	58	\$56.00
Ottawa	Lowren Housing Company Limited....	100	\$55.00
Ottawa	Bonlogis d'Ottawa Limitee.....	108	\$55.00
Owen Sound	Owen Sound Housing Company.....	40	*30 @ \$27.00 10 @ \$22.00
Windsor	Windsor Housing Company Limited..	96 *	\$35.00
York Township	Township of York Housing Company Ltd	128	*64 @ \$35.00 64 @ \$29.00

*Housing for Elderly Persons.

The WITNESS: These are where the municipality has a financial interest in the limited dividend companies.

The next point was a question asked by Mr. Adamson as to whether I would make some comment on the difference between the F.H.A. and Bill 102. This answer can be almost any length, but if I might have about 3 to 5 minutes I would like to run over the major differences.

The CHAIRMAN: All right. They are important.

The WITNESS: The sources of funds are identical: Number of lending institutions in the United States, 18,000; in Canada, 70 at the present, of which 17 are active. Under Bill 102 there will be an additional 3,900 branch banks. The interest rate in the United States is 4½ per cent by statute. Under Bill 102 it would be set by the Governor in Council. In the new amendment proposed by the President to the Congress the interest rate in the United States—maximum interest rate—is to be determined in exactly the same manner as now contemplated in Bill 102. They ran into the same difficulties that we did. On loan percentage the present F.H.A. is for lending values up to \$11,000, 95 per cent of the first \$7,000 and 70 per cent of the balance. 80 per cent of the lending value for cases with lending values over \$11,000. A change upwards is now proposed.

Mr. Chairman, I will later ask to put on the record a summary of the changes now being proposed in the United States (see *Appendix "A"*). On loan limits—individual houses—there is a limit of \$16,000 in the United States by statute, and under the new amendments that may be changed to \$20,000. In Bill 102 it is to be set by the Governor in Council. In the matter of maximum charges to the borrower for obtaining a loan, in the United States under the F.H.A. there is an insurance fee, an application fee of \$45, legal and survey fees, a service fee of up to 2½ per cent—or one per cent if a completion loan—and they allow a discount for warehousing of mortgages. This is a pretty expensive list of charges which can be made against the borrower.

Under Bill 102, and what I would guess would be regulations made to accompany Bill 102, the annual charges that can be made are insurance fee, an application fee, a legal and survey fee. Bill 102, and I believe the regulations to accompany it, will have a definite prohibition against any service fee, discount or warehousing fee, and will require that it be a par deal, as far as the borrower is concerned. In other words, if a borrower signs a mortgage, there is nothing to be deducted except as stipulated.

Regarding compliance inspection, in spite of evidence you heard, it is 100 per cent by the F.H.A., and that is what is proposed also under Bill 102.

Insurance or progress advances are not insured under the F.H.A. but will be insured for a single premium of one-quarter per cent of the advances under Bill 102. In the insurance settlement provisions, in the United States the lender has the right to retain the property or transfer it to the F.H.A. in exchange for debentures maturing 3 years after the contemplated maturity of the original mortgage. Our arrangement is somewhat similar, save that Bill 102 contemplates a cash settlement rather than debentures.

Concerning principal guarantee, this guarantee is 100 per cent under the F.H.A., and 98 per cent in Canada.

Borrowers' charges guarantee is 100 per cent in both countries.

Arrears of interest guarantee is nil in the United States, and in Canada is 98 per cent of the first six months interest at the mortgage rate, and 100 per cent of the next 12 months interest at the mortgage rate less 2.

In the United States, the foreclosure allowance is "nil". In Canada it is \$125 plus taxed legal disbursements.

The vacant possession provisions are the same in the F.H.A. as contemplated by Bill 102.

In the United States, under the F.H.A., there is a wastage provision should the property deteriorate when under the control of the approved lender. That is a matter to be determined by regulations under Bill 102. I would guess that the Governor in Council might be thinking in terms of a similar provision as under the F.H.A.

The final major difference is that in the United States F.H.A. loans can only be owned by approved lenders. Under Bill 102, there is a provision that F.H.A. loans may be owned,—

The CHAIRMAN: N.H.A. loans.

The WITNESS: Insured loans may be owned by an individual provided they are administered by an approved lender.

Mr. FLEMING: Mr. Chairman, may I ask a question?

The WITNESS: Mr. Chairman, I have with me—

Mr. STEWART: Before the witness leaves that, I think at the beginning he has asked us to compare an apple with an orange. He said there are 17 active lending institutions, and when the bill is passed there will be another 3,900 loaning outlets through bank branches. If you put them both on the same basis there will be just about 10 being the number of banks unless we take into consideration the number of outlets the insurance companies have through their branches?

The WITNESS: The number of outlets of insurance companies and branches is presently somewhere around 150. Add 3,900, it gives a total of 4,050. Add a wider group of lenders, and we will have a wider group of lenders from other sources and the position will be comparable to that in the United States.

Mr. STEWART: That puts them on the same basis now.

The WITNESS: Yes. On Thursday, February 11, there was discussion as to the respective guarantees in the home ownership and rental housing fields. I believe that Mr. Macdonnell in particular expressed interest in this subject, at pages 150, 151 and 157 of the evidence. I think there is some ambiguity which I may have created, and it may be helpful to the committee if I try to clarify it at this time.

Approved lenders may make three types of loans: (a) insured loans to home owners or home builders, (b) insured loans to owners building rental property, and (c) rental insurance loans to owners building rental property.

Now, for the first two types, the insurance guarantee is identical, that is both for the home ownership and rental property. The borrower pays a premium, and the lender receives insurance, and, in the event of foreclosure, receives identical settlements under section 9 of Bill 102.

For type (c), that is the rental insurance, the borrower pays a premium for a different reason. In return for the premium the corporation guarantees a certain rental income to the owner, not the lender. In general, the guarantee is sufficient to enable the owner to pay his mortgage debt service, his taxes and operating costs and still receive a return on his investment of 2 per cent.

Rents must fall by 15 per cent before the owner could realize on the guarantee, and in the meantime his earnings could range up to 14 per cent on his equity investment, but he is reasonably assured that they would never be less than a net of 2 per cent.

Now a lender, making a rental insurance loan, receives no insurance under section 9 of Bill 102. However, he receives from the owner an assignment of the benefits under the rental insurance contract which the owner has with the corporation. As the guaranteed rents are estimated to cover the debt service on the mortgage and the other things I mentioned earlier, the lender is virtually assured of no loss on the mortgage.

Summing up, therefore, for ordinary insured loans under part I, the lender has identical protection against loss regardless of whether it is a home ownership loan or a rental housing loan.

On a rental insurance loan under part II, the lender receives what amounts to a virtual total guarantee by the assignment of the rental insurance contract held by the owner of the property.

Mr. GAGNON: Can you tell us how many houses have been built in each province in Canada in 1952 and for each year before?

The WITNESS: Yes, Mr. Gagnon. May I have permission to put it on the record?

The CHAIRMAN: Yes.

STARTS AND COMPLETIONS PER 1,000 POPULATION BY PROVINCE, CANADA, 1952 and 1953.

Provinces	Starts		Population ('000)		Starts per 1,000 Population		Completions		Completions per 1,000 Population	
	1952	1953	1952	1953	1952	1953	1952	1953	1952	1953
Newfoundland.....	1,579	1,782	374	383	4.2	4.7	1,131	1,480	3.0	3.9
Prince Edward Island.....	72	137	103	106	.7	1.3	42	182	.4	1.7
Nova Scotia.....	1,863	2,527	633	663	2.9	3.8	1,811	2,160	2.8	3.3
New Brunswick.....	1,206	1,475	526	536	2.3	2.8	1,231	1,402	2.3	2.6
Quebec.....	26,355	30,249	4,174	4,269	6.3	7.1	22,407	29,803	5.4	7.0
Ontario.....	30,016	38,873	4,766	4,897	6.3	7.9	27,461	35,173	5.8	7.2
Manitoba.....	4,059	4,590	798	809	5.1	5.7	3,142	4,794	3.9	5.9
Saskatchewan.....	3,570	4,561	843	861	4.2	5.3	2,630	4,047	3.1	4.7
Alberta.....	7,415	9,625	970	1,002	7.6	9.6	6,204	9,854	6.4	9.8
British Columbia.....	7,111	8,590	1,198	1,230	5.9	7.0	7,028	7,944	5.9	6.5
Canada, Total.....	83,246	102,409	14,405	14,756	5.8	6.9	73,087	96,839	5.1	6.6

The WITNESS: You will remember Mr. Pouliot asked us to bring to the committee copies of forms to be used under Bill 102. I can only report, Mr. Chairman, that they are still in preparation but they will be tabled before the committee or distributed to the members as soon as they are ready. I think that is everything I have, Mr. Chairman.

By Mr. Johnston:

Q. May I ask one question? In view of the statement which Mr. Mansur just made about the protections which lenders receive under the insurance premium, would that not somewhat nullify the statements made by the president of the Royal Bank, and some of the lending institutions, that the guarantee now is not quite as sufficient as they had anticipated?—A. Well, I had difficulty with that evidence, Mr. Johnston, because I did not know what they anticipated.

I can tell you this, however, that in talking to the New York Life, who never operated in Canada under the N.H.A. they told me that the guarantee was a lot better than the guarantee under the F.H.A. from their point of view. I think that in the evidence we heard earlier, there were continual references to "catches"—I think that was the word that was used. There is no catch whatsoever. The guarantee is spelled out completely and absolutely in section 9. Nobody has ever suggested that there was not co-insurance under section 9. It says there is co-insurance under section nine, and I think a lot of the confusion arose out of these references to "hidden catches" that are around. There are no catches at all. It is spelled out in full in section nine of the Bill.

Q. Would you agree that there is greater protection under the insured mortgage, where they are insured 98 per cent, as against the 25-75 arrangement, that is in the over-all picture, at the end of the 25 years, let us say, for amortization?—A. The difficulty under the bill is to assess its true value against pool guarantees. If a company has done a substantial N.H.A. business in a rising market and has a tremendous quantity of their business put out in 1946, 1947 or 1948, for which they received a credit into the pool guarantee account, they are in a very strong position in respect to their subsequent business. However, another company first entering the N.H.A. field under joint loan arrangements, say in the year 1953, has no such backlog of credits to a pool guarantee and that company certainly is not as well looked after under the old joint loan provision as it is under Bill 102. However, Mr. Johnston, if a company had done a very large volume of business, say, up to 1950, and under the joint loan arrangement, they can carry that accumulation against the business they make in 1953. Then perhaps the position could be taken that they were better off under the pool guarantee system than under the insured system.

By Mr. Hellyer:

Q. Mr. Mansur, you mentioned that in the proposed Bill 102 the loans would be at par. Is there any provision similar to that under the present Act?—A. In practice I think they generally will be at par. I do not think that there is any specific provision, but the joint loan arrangement does not lend itself so easily to the discounting as does the new insured arrangement. We have seen the troubles in discounting in the United States, and I think the government is in agreement with us that it should be a par deal as far as the borrower is concerned.

Q. Perhaps I should be more specific. What about penalties? I am not too clear on this point, but recently in the city of Toronto certain promoters were undertaking to obtain N.H.A. loans—at least so I am told—with the source of

the funds in the United States of America, and the only catch was that the borrower had to pay \$500 for the privilege of each loan. I really want to know if there is protection against that sort of thing?—A. Mr. Hellyer, we have had communications, long distance telephone calls, wires, and generally a pretty close association over recent weeks with a number of mortgage brokers in the United States. The deal which they would like is this: a 95 per cent deal with a \$50 fee; another one is a \$500 fee. We have told them that the deal, as far as Bill 102 is concerned, is a par deal to the borrower. In other words, if the borrower signs a mortgage for \$8,772, of which \$172 is the insurance premium, then he will receive \$8,600 less allowed expenditures. We are not going to go for the type of mortgage transaction which they have at the present time in the United States. They have had, as you know, a $4\frac{1}{2}$ per cent rate, but the $4\frac{1}{2}$ per cent rate is the coupon rate. A $4\frac{1}{2}$ per cent rate at 95 is not a $4\frac{1}{2}$ per cent rate, and we intend to keep the maximum rate allowed by the Governor in Council the effective rate as well as the coupon rate.

The CHAIRMAN: While you are at it, you might as well make the statement boldly—that there is no room for mortgage brokers in this deal.

The WITNESS: Mr. Chairman, yes and no. There is room for a mortgage broker, provided that the mortgage broker sees that a borrower gets 100 cents for a dollar. If the broker then takes the mortgage and sells it to an investor for 105 cents on the dollar, that is all right with us.

The CHAIRMAN: You are not making much room for him.

The WITNESS: We are not going to have the borrower directly or indirectly paying the remuneration to entrepreneurs in this mortgage field.

Mr. JOHNSTON: Have you had any inquiries from Britain in regard to entering into the bill?

The WITNESS: Yes, two or three groups from the United Kingdom have seen us. We are anxious to explore with them the possibility of their going into the field—some fairly important English and Swiss money combined.

Mr. Low: Would currency restrictions not make it very difficult?

The WITNESS: Apparently not. Extraordinary things seem to happen. They seem to have lots of money.

Mr. Low: I hope they can get in.

By Mr. Hellyer:

Q. One more question regarding the guarantee. There is some apprehension from lenders regarding the guarantee being less than 100 per cent, 98 per cent protection or less, and that sort of thing. What is the difference between a 98 per cent protection on an insured mortgage as against apparently a 96 per cent, or 95 per cent, protection on government bonds? They have been selling government bonds for 96 per cent to buy N.H.A. mortgages. How is that consistent?—A. I guess it is consistent, in that if bonds are held to maturity they will get 100 cents on the dollar for them. I think that would be the rebuttal to your suggestion.

Q. Yet in fact they are willing to sacrifice bonds at 96 per cent in order to buy mortgages, which is some proof that they must be an attractive investment at the present prices?—A. Yes, I think that the lenders maybe are having just a little trouble restraining their enthusiasm for this deal.

By Mr. Johnston:

Q. I want to ask one question. Do you think there is any evidence whatever of a combine in the plumbing and wiring industry?—A. I do not know, really I do not.

Q. Would it be worth while for Central Mortgage to take a look at that?—
A. I would think that that was a matter which fell within the purview of the Department of Justice.

By Mr. Fraser (Peterborough):

Q. That is right.—A. I think it would be very difficult for us to express any opinion. Quite frankly, I do not know. I would suggest one thing, however, that in a good many building material fields we have the great advantage of having a standard of quality throughout the country which they do not enjoy in the United States. You may say that it costs money. I do not know how much it costs in the aggregate, but there is not as much junk floating around Canada in the building materials field as there is in the United States. Consider plumbing. There is no plumbing manufacturer in Canada today that I know of who makes other than A-1 plumbing material. Now, take a look at the imports from the United States in that particular field. You never saw so much junk in all your life as is coming in. One of the very banes of our existence in this inspection field is to find what is junk and what is not. We are working with the plumbing people now to see if we cannot have a Canadian standard association stamp placed on all brass goods so that we really can determine what is being used. I am not too proud of our inspection activities in the field of plumbing.

Q. Has your department figured out what the extra cost will be to Central Mortgage to carry out this Bill 102, with the extra offices, and so on?—A. Yes, we have, sir. I think we can float it on 50,000 loans a year. I think that 35,000 loans a year will run us into a deficit of about \$400,000 a year. What I am telling you indirectly is that the addition to our branch organizations contemplates an annual expenditure of about \$1.7 million, which would be looked after by the application fees on 50,000 loans.

Q. You mean 50,000 insured loans?—A. That is right.

By Mr. Fleming:

Q. That figure of \$1.7 million is over and above your present overhead, I take it?—A. An addition, yes. The addition will float at a 50,000 level.

Q. But what is your present total now?—A. You mean of joint loans?

Q. Yes, your total overhead now?—A. Our total overhead on lending account?

Q. I want to get an idea of how this million dollars stacks up as a percentage item?—A. Roughly, \$1 million?

Q. Well, then, it would double it?—A. No. This will increase it from \$1 million to \$2.7 million.

Q. I misunderstood you. I thought you said an addition of a million?—
A. The addition of these branches which I mentioned a moment ago will involve \$1.7 million.

Q. Oh, I thought you said a million?

By Mr. Fraser (Peterborough):

Q. That will be on top of all your other expenditure? What will be your total outlay over the year on everything?—A. On everything.

Q. On everything!—A. Including construction, and management of property, it would amount to about \$6 million.

Q. \$6 million, that includes administration and all?—A. Yes.

The WITNESS: Mr. Chairman, the sole remaining item I have is a request that we table a letter which we received from the Dominion Mortgage and Investment Association, offering some suggested amendments to the National Housing Act (*See Appendix "B"*). I might say by way of explanation that the letter was received in the very early stages of the discussion of Bill 102.

I think the Mortgage Association is satisfied that some of their suggestions are not necessary, and that some of them have been implemented. The end result is, I believe, that the suggested technical amendments which will be brought forward when the bill is discussed clause by clause will meet the judgment of the Dominion Mortgage and Investment Association.

The CHAIRMAN: A copy of the letter is being made available to all members of the committee now.

Mr. FLEMING: What is the date?

The CHAIRMAN: January 14. I thank you very much, Mr. Mansur.

The CHAIRMAN: Gentlemen, we have with us representatives of the Canadian Federation of Mayors and Municipalities. Mr. J. O. Asselin, the president, will read the brief. He is accompanied by Mr. George S. Mooney, executive director.

Mr. J. O. Asselin, President Canadian Federation of Mayors and Municipalities, called:

The WITNESS: Mr. Chairman and members of the committee, the Canadian Federation of Mayors and Municipalities appreciates the invitation to appear before the Standing Committee on Banking and Commerce for the purpose of making a statement and giving testimony regarding the housing legislation presently under study by this Committee.

The federation is a national organization of municipal governments of Canada and embraces within its membership most municipalities in Canada having a population of 10,000 and more, besides a large number of smaller towns and urban communities. . . . While it has been impossible to convene a special meeting of our national executive for the particular purpose of discussing the pending legislation, we have, however, been in communication with a number of mayors and other municipal representatives in order to ascertain their views; besides which, through resolutions of municipal councils and discussions which take place at annual conferences of the federation, sufficient is known of what might be described as the "municipal" viewpoint to warrant the federation making a statement and appearing before this committee as the spokesman for the municipal governments of Canada.

Municipal governments are keenly sensitive to the housing needs of the Canadian people. It is a problem which is constantly on their doorsteps. They are concerned with it in all its aspects: land assembly, land costs, service installations, building codes, house financing costs, the quantitative supply as well as qualitative standards, home-ownership as well as rental housing. Moreover, the effect of housing supply and standards and the general well-being of the house construction industry plays a major role in the tax structure of local governments.

Because of the wide interest of municipal governments in the matter, the federation would like to place on record certain views with respect to these several aspects of the housing problem. . . . In doing so, we desire, first of all, to commend the federal government, not only for the generally comprehensive nature of the facilities provided under the National Housing Act with its various amendments, but also to acknowledge the efficient administration of the Act which has been provided through the establishment of the Central Mortgage and Housing Corporation. . . . The record of house construction in Canada during recent years has been one in which Canadians can be justly proud and, while there is always room for improvement and new adaptations and expanded facilities, there can be no doubt that the basic

legislation and facilities available through the National Housing Act have made a great and solid contribution towards meeting the housing requirements of the Canadian people.

Despite this and notwithstanding the comprehensive nature of federal housing legislation and its attendant facilities, housing continues to be a major national problem... We have not yet caught up with the backlog of need growing out of the depression and war years and are barely keeping pace with the annual increment of need occasioned by the growth in population. Here and there, largely for street-widening purposes, obsolescent housing is being cleared away but, save in a relatively few instances, no major slum clearance and housing redevelopment projects have been proceeded with. There is an acute shortage of serviced land in many municipalities. Mounting land costs, construction costs, financing costs and, to some degree, tax costs, have contributed to a soaring over-all cost-of-housing, to the point where, to many families, current housing costs prohibit their entering the home-ownership field, while rental costs restrain them from enjoying the amenities of modern minimum standard housing. As a consequence, overcrowding and slum housing continues to be in evidence, particularly in the larger cities, due, in part, to high rental costs and the dearth of medium and low-rental housing.

Let us look at the problem in some of its more particular aspects.

Land Assembly

There is an absolute shortage of serviced residential land in some municipalities and many are facing probable shortage in 1954 or by 1955. The critical extent of the shortage was generally indicated by a recent survey undertaken by the Central Mortgage and Housing Corporation.

Of the 142 municipalities covered by the survey, it was indicated that, in at least 39 municipalities, mainly growth areas, housing construction will be limited this year consequent upon the scarcity or absolute non-availability of serviced land. Some 14 municipalities, mainly smaller towns, indicated that, while there was a short supply, there would be sufficient for this year's anticipated building. Some 25 municipalities indicated that enough serviced land was presently available. Some 10 municipalities, mainly fringe area communities adjacent to large cities, indicated that raw land was being used without service installations while, in the balance of the municipalities covered by the survey, the problem did not concern them inasmuch as there was no great amount of new housing construction going on or anticipated.

The provisions available under Section 35 of the National Housing Act whereby the Federal and Provincial Governments jointly undertake on a 75 per cent-25 per cent financial participation basis to acquire raw land, install services, and sell such land to builders and home-owners, offers a hopeful promise that the problem of serviced land assembly can be met... Most of the provinces have now passed the necessary complementary legislation authorizing agreements with Central Mortgage and Housing Corporation to initiate such projects and a number of projects are already completed or under way while others are in process of negotiation.

The federation is of the view that this provision of the National Housing Act could be made more use of than it has to-date. The establishment of a reasonable reserve of serviced land is essential if we are to continue to keep pace with the housing requirements of Canada's growing urban population. While the municipal governments ought to be in the lead in fostering local land assembly projects, a stimulus towards this end could be created were the Central Mortgage and Housing Corporation to pursue a more active publicity and promotion policy in drawing to the attention of both provincial and municipal governments the useful advantages to be gained by utilizing the facilities which this section of the National Housing Act makes available.

The Costs of Housing

The high over-all cost of housing is a disturbing fact. Land values, service installations, building materials, construction labour, insurance, municipal taxes and maintenance costs, as well as the other items which, taken together, comprise the aggregate cost of urban housing, have increased in price, in most cases substantially, during recent years. While there are good grounds for believing that such costs have now reached a fairly stabilized level, the fact remains that the level reached is extraordinarily high. As a result, the price of new minimum standard housing has outpriced the pocket-books of many Canadians thus reducing the effective market to a small proportion of what, otherwise, is the potential demand and demonstrable need.

With respect to most of the items entering into housing dollar costs, any amelioration from present prices must await the inexorable workings of the law of supply and demand. With respect to other items, there are some things which, through appropriate policies, would ease the present burdensome cost and thereby make it possible for many prospective homeowners, otherwise unable to do so, to purchase a home of their own. . . .

Be cause of the high social as well as economic importance of housing and home ownership, it is incumbent upon all of us, those who serve in the governments of the nation—federal, provincial and municipal—as well as those who influence the policies of private business—the construction industry, the lending institutions and other bodies who have a business interest in the house construction industry—and, likewise, those who influence the trades and labour movements of the country—to do everything in our power to rationalize and facilitate a continuing high volume of housing construction during the period ahead, particularly with a view to keeping housing costs within the range of wide-spread effective demand.

In essence, this is the underlying purpose of the National Housing Act. It was designed, in part, to facilitate and lower the financing costs of new housing. It has had this effect and, thereby, has made possible a volume of new housing construction which it is doubtful would have reached the high levels it has without the facilitating financial aid made available by the Act. While N.H.A. mortgage financing costs have remained relatively stable, actual construction and other costs relating to housing have pyramided higher and higher. . . . As a result, the increased over-all land and construction costs have required higher mortgages, therefore higher down payments and higher debt service or aggregate carrying costs than was the case when the basic financial provisions of the National Housing Act were first introduced.

The new provisions contemplated in the revised Act now under consideration are aimed at meeting this changed situation. By extending the present 20-year maximum mortgage amortization period for home ownership loans to from 25 to 30 years, with the prospect that the maximum loan to be available may be increased from the present limit of \$10,000, and with the further prospect of small required amounts of equity or down payment, it is hoped that thereby there will be a lessening of the heavy initial and annual financial payments which home ownership in these days entails. As a result, it is expected that the present annual level of housing construction will be maintained and even increased.

The objectives of the revised legislation are admirable but whether they will ensure a construction level of the order of 100,000 or more new units a year is doubtful. It would seem more probable that the needs of the present situation as well as the period ahead could better be met were the revised legislation to go somewhat farther than that which is being contemplated. For instance:

1. In order to widen the potential field of home purchasers, the gap between the maximum available mortgage loan and the cost of

- construction could be narrowed by reducing the required minimum equity or down payment to 10 per cent on all loans. In houses costing under \$10,000.00 it might even be less. . . . The number of prospective home purchasers who would be credit worthy and who would have the necessary savings to make the required minimum down payment would thereby be considerably increased.
2. In determining the amount of the monthly or periodical mortgage repayments which, in turn, determines the amount of the allowable mortgage loan (and which, by present legislation is not to exceed 23 per cent of the gross income of the mortgagor) consideration might be given to defining gross income to include "family" income whenever, in fact, "family" income can be construed to form part of and be supplemental to the earned or other direct income of the mortgagor.
 3. In setting the maximum limits of mortgage loans, consideration might be given not only to the fact that residential construction costs have risen by 25 per cent or more since the original \$10,000 limit was set but, as well, many prospective home-owners would be more interested in building if there was a little more leeway in the amount of construction money available through N.H.A. loans. . . . A maximum loan to the amount of \$13,500 does not seem unreasonable under present conditions.
 4. The possibility that mortgage interest rates may increase consequent upon the withdrawal of the federal government from the existing joint lending arrangements will be a deterrent to new housing construction. . . . The government should reconsider the effect which the possibility of increased mortgage financing costs will have on the house construction industry. Unless there are reasonable expectations that the existing $5\frac{1}{4}$ per cent rate can be maintained as a maximum, consideration should be given to reinstituting the joint lending arrangement, or some equivalent measure should be devised to take its place. If interest subsidies are required, there is ample precedence to justify them. From its inception until the present, all mortgage loans under the National Housing Act have, in effect, been subsidized by the federal government under the joint lending arrangements with the lending institutions.

Low Rental Housing

The great unmet housing want in Canada is rental housing for low-income families. The proportion of low rental housing construction to the total volume of new housing that has been built in Canada since the first National Housing Act of 1935 was introduced has been pitifully negligible.

Over the years, the shelter needs of low-income families have been met by leaving the problem largely to the ingenuity and devices of the low-income group themselves. Left to their own resources, low-income families have had no other recourse than to populate the slums or to share already overcrowded housing with other families.

The National Housing Act has provided generous facilities whereby the problem might have been tackled in an energetic way but, save for a few notable examples, there has been little disposition on the part of either the provincial or municipal governments to take advantage of the facilities available. There is considerable public apathy with respect to the matter and active opposition to the idea of public housing in some quarters.

It is perhaps because of these considerations that the federal government itself appears to be somewhat reticent in encouraging the use of those provisions in the National Housing Act whereby a large-scale program of slum clearance and low rental housing could be undertaken.

The fact remains, however, that slums continue to blot sections of our cities and that over-crowding continues to characterize the lot of many low-income families. If our protestations that every Canadian family should be decently housed are anything more than good intentions, then the time has come when we must do more than simply decry the existing situation. A large volume of low-rental housing is needed throughout the country, particularly in the larger cities.

What is needed is a stimulus and this can best be provided by constructing experimental projects in different cities. Some municipalities have projects under consideration but there is no assurance that they will be implemented. Local factors may inhibit their realization. In other cities, for other reasons, the possibility of a program of low-rental housing, great though the need is, seems quite remote.

As a practical first step towards implementing the actual construction of demonstration low-rental housing projects, the federation has been specifically requested to urge upon the federal government that they undertake, through Central Mortgage and Housing, to finance the entire cost of low-rental housing projects in areas where a housing shortage and overcrowding exists. The federation is of the view that, if a series of such projects could be wholly undertaken by the federal government, it would have the effect of stimulating more active interest by the provinces and municipalities in low-rental projects and, besides, would serve to arouse a more active public interest in the re-housing needs of low-income families and, at the same time, help to dispell the fears which some people hold with respect to such undertakings.

Municipal Building Codes

It has been stated that one of the factors contributing to the high construction costs of housing are the rigorous requirements written into the municipal building codes in existence in Canadian municipalities. The requirements of some municipal codes do not allow for the use of certain materials or material standards nor are they sufficiently flexible to permit the use of certain types of construction which could reduce construction costs. Besides the rigidities complained of, there is a wide variation in the different building code standards which finds its reflection in varying costs of construction in different municipalities.

It can be stated for the record that municipal governments generally are aware of the situation with respect to local building codes. In most instances, revisions are constantly being made in order to make it possible for approved new building materials and construction techniques to be employed. Because municipal governments do not have readily available the expert advice and testing equipment to satisfy them with respect to the merits of new building materials and standards, there is frequently a lengthy delay before these new materials and standards receive local acceptance and approval. It was because of such considerations that the National Research Council set up the associate committee on the National Building Code. This committee, on which the federation is represented, has spent several years in patient and thorough study and research in the preparation of a model building code. Municipal engineers and other municipal officials concerned with local building by-laws and their administration have been brought into frequent consultation during the progress stages of the study. It is expected that the completed code will be ready for distribution in the next short while.

Many municipalities have been deferring the revision of their local codes pending the completion of the National Building Code. It can be anticipated that many of them will adopt the National Building Code as the basis for their own code, subject to any local peculiarities which their situation may require and which the National Building Code does not provide for.

In this way, it is to be hoped that, in the relatively near future, a larger measure of uniformity, in standards and practice, may characterize local building codes throughout Canada.

Community services and schools

It has also been pointed out that municipal governments are sometimes reluctant to encourage the opening of new subdivisions because of the added burden which such developments place on their limited financial resources... The concern of municipal governments with respect to the civic financial implications of new housing developments is very real and very understandable.

Among the three levels of government, local governments are the least able to find the ready financial resources to carry on a program of capital works. In addition to streets, sidewalks, sewers, water and street lighting, any substantial housing development will require not only an augmentation of normal utility services but a substantial increase in the service functions of municipal governments, including police, fire, street cleaning, garbage removal and incineration, etc. It will also probably call for enlarged water pumping plants, main collector sewers, community buildings, parks and playgrounds and, of course, new schools.

If the urban population is destined to continue at the same ratio of growth as it has during recent years, it is doubtful if the municipal governments of Canada, operating within the credit and revenue rigidities which they do, will be able to finance the costs of the attendant municipal services and facilities which expanding population growth is thrusting upon them... The real bottleneck in housing may turn out to be the sheer inability of municipal governments to provide the essential community requirements and facilities which our expanding urban population requires. This possibility is more than a probability, it is already, in some areas, a "brake" factor in new housing developments.

To meet this situation, the federal government might well consider whether the time has not arrived for appropriate measures to be introduced aimed at facilitating the financing of municipal utility and other capital work requirements in those communities where population growth and housing expansion is creating a pressure for such facilities beyond the capacity of the municipality to provide.

Unless something of the sort is done, there is the possibility that our entire national house construction program may bog down because of the sheer lack of those ancillary but indispensable municipal facilities without which no large-scale urban housing program could be justified.

By Mr. Fleming:

Q. May I put one question to Mr. Asselin, Mr. Chairman. Mr. Asselin, what objection have you, if any, to the use of the word "slum" in our housing legislation as applied to dilapidated and substandard housing?—A. I have my own interpretation of what a slum could be, and I have a bit of personal objection to describing some areas as "slum" areas, because at some time I may have some relatives living around there, and I do believe that it is deprecating the quality of the people living there to tell them that they are living in slums. I don't like the word "slum", but I don't know another English word that describes the situation as well as that word.

Q. Is it any more objectionable than to refer to those same people as living dilapidated and substandard housing?—A. Would you repeat that question, please?

Q. Is it any more objectionable that to refer to those same people as living in dilapidated and substandard housing?—A. Well, I would think that "substandard" does not make exactly the same impression on my mind as the word "slum".

The CHAIRMAN: What is the French word for "slum"?

The WITNESS: "Taudis".

The CHAIRMAN: We cannot substitute that.

Mr. GAGNON: It means the same in either language.

The WITNESS: It is a generally recognized word. When we refer to a street, we often use the word. Certain people have to live in slums, sometimes in unhuman conditions. I do not know that it is necessary for me to define the word "slum" other than substandard. I think all citizens of the country realize quite well what we mean by the word "slum", although personally I refrain from using it as much as I can.

The CHAIRMAN: Mr. Stewart.

By Mr. Stewart:

Q. Mr. Chairman, the witness said that the real bottleneck turned on the inability of municipal governments to provide the essential requirements that they want. Let me say that in Manitoba, where I come from, I happen to represent two municipalities, East and West Kildonan. The people who own their homes there have built them mostly under the National Housing Act. They are young couples with growing families, and the municipalities are hard up. They have two great municipal projects confronting them; one of those projects is streets and other services and the other is schools to provide for the younger people of the community. Do I gather from this brief that it is the desire of this organization that the federal government should advance loans to the municipalities for these capital purposes?

Mr. MOONEY: That is suggested in the brief.

The WITNESS: It is suggested that the time might have already arrived when the federal government should consider it.

Mr. STEWART: I am entirely in favour of this thesis. But would not the province of Quebec regard it as an interference with provincial right in the field of education if the federal government were to advance money to them for the building of schools?

The WITNESS: I would not care to answer a question such as that, realizing the implications of it.

The CHAIRMAN: It is not for Mr. Asselin to answer. It is not a proper question.

Mr. MOONEY: Well, Mr. Stewart, the statement before you is an attempt to give an over-all reflection of municipal thinking across the country from all the provinces and some of the municipalities. Some of the provinces feel that the federal government ought to give assistance to municipalities with respect to their school needs.

Mr. STEWART: And assistance for other needs as well, I suggest.

Mr. MOONEY: Yes.

Mr. STEWART: Have you found the situation to exist in the province of Quebec. Have you had requests from municipalities for such assistance?

Mr. MOONEY: No Quebec municipalities have made such a request. But other municipalities at our annual meetings and conferences have consistently suggested it, and we have petitioned the federal government in that respect.

Mr. FOLLWELL: Are you suggesting something in the way of a loan or an outright grant?

Mr. MOONEY: No suggestion was made in that respect, other than that a measure of assistance be made available through the facilities of the federal government in order to enable these capital works to be gone ahead with.

Mr. FOLLWELL: You do not suggest any particular machinery?

Mr. MOONEY: No.

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell:

Q. How far are we to consider the difficulty goes to which Mr. Stewart referred? On page 12 I read:

The real bottleneck in housing may turn out to be the sheer inability of municipal governments to provide . . .

Is that in effect saying that this measure, or this bill we are considering, will not or cannot alone make a substantial contribution to the problem? Does it go so far as that? It seems on the face of it to be a pretty strong statement.

Mr. MOONEY: Mr. Macdonnell, the federation and the municipal governments of the country are not suggesting that Bill 102 will not make a contribution. They concede that it will. But the statement contains a warning that we are heading into a situation where the resources which are available to municipal governments cannot keep pace with expanding urban growth consequent upon the expanding housing program, and that those resources are very definitely limited. In addition, most municipal governments are already very heavily in debt and are unable to extend their debt carrying to a much greater extent. So there is this warning that they really will not be able to keep pace with the requirements of growing and expanding populations and growing and expanding housing.

The WITNESS: I think there are a great many indications that the expansion due to large construction has reached a point where municipal borrowing ability has reached its limit and that municipalities will have to look elsewhere for financing even their local improvements.

Mr. MACDONNELL: There is a statement made in the brief. Although I cannot put my finger on it at the moment, I remember that it referred to the fact that the provincial and municipal bodies have not come forward. Would you mind saying a word as to that?

The WITNESS: You mean about the provision for slum clearance or rejuvenating areas?

The CHAIRMAN: It is at the top of page 9, I think.

Mr. TUCKER: I thought he was referring to page 4, to the provisions available under section 35 of the National Housing Act.

The CHAIRMAN: No.

Mr. MOONEY: With respect to the matter of land assembly and the servicing of land and making it ready for housing, and with respect to the matter of slum clearance and low rental housing projects or low income projects across the country, there has been considerable apathy among all sections of the municipal scene in Canada, and there has been relatively little enthusiasm shown towards these matters. The statement incorporated in the memorandum came to us from 2 or 3 municipalities which thought that their needs would be better strengthened locally if there were more aggressive promotion of the idea on the part of Central Mortgage.

The CHAIRMAN: Well, Mr. Mooney, at this point I can inform you, as you may or may not know, that Central Mortgage and Housing Corporation and the federal government have never had occasion to turn down an application under section 35.

Mr. MOONEY: I think that is correct.

Mr. TUCKER: You would have to deal with the municipalities through the provinces, would you not?

Mr. MOONEY: Yes.

The CHAIRMAN: Mr. Adamson.

Mr. ADAMSON: Mr. Asselin or Mr. Mooney or whoever prepared this brief has stressed in the last 2 pages, the inability of the municipalities really to provide serviced land, with schools and other facilities.

Mr. MOONEY: We have stressed in the brief the difficulty and the growing inability of municipalities to provide serviced land, and we mention the very real probability that they are reaching a stalemate in respect to municipal governments across the country undertaking their responsibilities in that field, not because they did not wish to, but because they were financially unable to do so.

Mr. ADAMSON: And you therefore suggest that the situation is likely to deteriorate?

Mr. MOONEY: Yes, and we go so far as to say that it has already deteriorated.

Mr. ADAMSON: Quite, quite, I agree with you. The municipality which I represent is one of the most progressive bodies.

The CHAIRMAN: I thought you were going to say it had deteriorated.

Mr. ADAMSON: No, no. Then, you suggest in your brief as well that you really ask for help from the federal government in order to provide these services?

Mr. MOONEY: The brief recognizes that facilities are available under section 35 of the Act with respect to land assembly and servicing of land.

Mr. ADAMSON: By subsidy?

The WITNESS: By the 75-25 arrangement whereby the federal government and the provincial governments acquire the land and make it available for resale for private housing construction.

The CHAIRMAN: It may not be a subsidy.

Mr. MOONEY: We are just trying to give you the reflected thinking of many minds at work in the municipal field. They think that this could be more aggressively pursued with a little bit more effective leadership from Central Mortgage.

Mr. ADAMSON: Do you think that the provisions in the bill as presently written will be sufficient to provide serviced land?

Mr. MOONEY: If there was full co-operation from all the provinces and the municipalities and the federal government working through Central Mortgage, under section 35 of the Act. The facilities are there.

The CHAIRMAN: That is right.

Mr. ADAMSON: Have you made any study as to the system in the United States whereby serviced land is provided through the method of tax-free bonds?

Mr. MOONEY: I only know of it in a general way. I am not sufficiently familiar with the subject; I have no special knowledge of the matter.

The CHAIRMAN: Very well. Mr. Hellyer.

By Mr. Hellyer:

Q. Mr. Asselin, you think or you mentioned in your brief that Central Mortgage and Housing Corporation should publicize section 35 more and we have had information in this committee that they have drawn it to the attention of the various provincial governments and in fact most municipalities also. Just how much more could they do and how could they do it?—A. Well, I have noticed recently that Mr. Mansur has been very effective in some radio talks and speeches here and there. I would say that among mayors and councillors

the provision is not always understood. There is in some provinces also the hesitancy on the part of the government of the province to encourage the municipalities to go into that agreement which is necessary between Ottawa and the provinces.

Q. Under our constitution—

The CHAIRMAN: Please let him finish his answer.

The WITNESS: I mean by this that more explanation and more publicity of it might encourage more municipal governments to press for such agreements between the provincial government and the federal. In some provinces—I am not sure that I can speak in the plural in this—but some agreements are lacking.

Q. Under our constitution the responsibility for housing falls within the exclusive jurisdiction of the provincial governments?—A. Yes.

Q. If as you have said machinery is available, do you not think that it is for the provincial governments to take the initiative in these problems?—A. If the provincial government has the legal authority from the legislature to go ahead I would think that if there was more pressure on the part of the municipalities for such agreement between the provinces and the federal, then that might bring the government around to agree with the provisions. In Montreal at the present time there is the executive committee of the city of Montreal who have created a consultative committee on low rental housing. We have a very representative committee which has done immense work. I am a member of that committee, although I am not the chairman. We intend to lay the ground so that we will be able to go ahead with a large scale slum clearance with all the figures necessary presented to the executive committee and the council, and we think that through that medium we might create a situation whereby the provincial authority might go a little further than it has up to now.

Q. You mentioned getting approval of the legislative assembly. Any municipal government that cannot do that is on pretty shaky ground.—A. I am not qualified to answer that.

Q. We feel here that Central Mortgage and Housing Corporation should not be blamed for the inaction of the provincial governments?—A. My own personal and private impression is that you are quite right, Central Mortgage and Housing should not be blamed for anything in that direction.

Q. The other point respecting financial assistance for schools and that type of thing, what is the financial position of the various provinces in that respect? Could they not themselves help the municipalities more in financing schools and other services if they wanted to? Do they not have the financial ability? Could not they underwrite the debentures? What is being done?—A. I understand that it is for the servicing of the schools, but not for the construction of a school itself. It means the services.

Q. After they are built?—A. Or before?

Q. How many provinces have legislation to underwrite capital services for this type of development, such as sewage disposal plants, water works, and this type of thing? Have you any idea?—A. I would not be qualified to answer that, and I doubt if we have that information.

The CHAIRMAN: Mr. Mansur carries these things in his head and informs me it is Ontario and Alberta.

By Mr. Hellyer:

On page eight—no, that was another question which has been fairly well answered saying that under section 35 it suggests a hopeful promise. Some of us who remember the legislation enacted in 1949 wonder why now, almost five years later, it would be just a hopeful promise at this stage. Later on at page 8 of your brief, you mention that you think the maximum loan might be as

high as \$13,500. Do you say in that suggestion that there was any idea of the possibility that municipalities like to see larger houses built as compared to smaller houses?—A. It is my personal knowledge that a certain number of larger houses should be built in large municipalities. There are a number of large families that cannot adequately be housed. A fairly large number of those are in larger cities like Montreal and Toronto.

Q. Is that suggestion just to maintain a balance rather than upgrade the entire house building program?—A. I am not sure that the \$13,500 there only means those people; it means all houses. Personally I am a little leery and am not certain as to the ability of low earners, heads of large families, to be able to embark upon buying a house at that price unless we are fairly certain that we are able to maintain full employment. I would find myself in a very difficult position if I were saddled with a house of that price with a large family and was, even for a month, or two, idle. I might be in financial trouble.

Q. Do you think that it would be advisable for provinces to introduce legislation which would make the National Building Code applicable to the various municipalities across the board rather than leave it to the decision of municipal authorities?—A. I am not a politician and I cannot answer that.

By Mr. Cardin:

Q. In order to clarify what you said a few moments ago would it be fair to say that large municipalities such as Montreal and Quebec made representations to the provincial government in order to be able to take advantage of section 35?—A. I am not here in the capacity of chairman of the executive committee of the city of Montreal and I have no authority to make specific statements, and I have not asked for such authority although I can speak rather freely on the subject. I mentioned a while ago the formation by the executive committee of a very representative consultative committee the members of which are not exclusively residents of Montreal but particularly of the area; Montreal Island represents 38 municipalities.

Mr. MACDONNELL: Did Mr. Asselin say he wasn't a politician?

Mr. FLEMING: He is very modest.

The CHAIRMAN: Gentlemen!

By Mr. Cardin:

Q. Would you care to answer the question as to whether or not this group of municipalities would generally favour section 35?—A. I would say that a very large number of citizens residing on the island of Montreal, and the district that extends beyond the river, are very earnestly, permanently and consistently asking for some large developments of slum clearance and rejuvenation of houses.

Q. I see.—A. I would also say that there is a constant flow of words in newspapers and on the radio in that direction.

Q. Thank you, Mr. Asselin.

The CHAIRMAN: Gentlemen, thank you for your attention this morning. We will meet again at 3.30 this afternoon.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. Are there any questions?

Mr. J. O. Asselin, President Canadian Federation of Mayors and municipalities, recalled.

Mr. JOHNSTON: I would like to ask just one question, Mr. Chairman.

The CHAIRMAN: Go ahead.

By Mr. Johnston:

Q. On page 10 of the brief, it is stated: "The federation is of the view that, if a series of such projects could be wholly undertaken by the federal government, it would have the effect of stimulating more active interest by the provinces and municipalities in low rental projects," and so on. I was wondering if the witness could tell us who would undertake the responsibility? Does he mean that the federal government should build these projects all over the country to advertise them?—A. Yes, through the Central Mortgage and Housing Corporation.

Q. They would take on the full financial responsibility of servicing the land, building the houses, and discharging the liability?

Mr. MOONEY: That is the suggestion made in the memorandum.

Mr. JOHNSTON: And there would be no financial responsibility whatsoever on the municipality or the province?

Mr. MOONEY: No.

Mr. JOHNSTON: That would be quite an undertaking.

The CHAIRMAN: Mr. Philpott?

Mr. PHILPOTT: What about section 36 of the present Act? We have a perfectly good section 36.

The CHAIRMAN: This morning, the witness, who knows that section very well, was high in its praise and his suggestion was that we ought to do more promotion on it than we have. The only suggestion that has not been made is that Mr. Mansur be sent around the country on a tour trying to sell its purposes.

Mr. MANSUR: Mr. Winters has done that.

Mr. DUMAS: Following that question, why not go ahead with the federal government?

The WITNESS: I think the parent of the law is the federal authority.

Mr. DUMAS: But in accordance with section 35 a province can go ahead with the municipality, but the municipalities are too poor to do it. Why not ask Mr. Duplessis in Quebec to do it?

Mr. MOONEY: We are merely suggesting propaganda be made so that municipalities who are interested could bring about pressure in order that the provincial government might be interested.

The CHAIRMAN: Mr. Asselin, do you mind if I question Mr. Mooney?

The WITNESS: Please go right ahead with Mr. Mooney.

The CHAIRMAN: I think a couple of old municipal hands might help. We are concerned with the cost of housing. There are five elements in the cost of a house: there is land, material, labour, financing, and the builder's profit and overhead. I think those are all the elements. I am not going to trouble you with the builder's profit, we have had evidence on that. We have had evidence on financing, as well as on labour and material costs. I wish to come to the question of the land. I have noticed that since section 35 became part of the law in this country in February, 1949, land values have increased sharply. In the city of Vancouver, a foot of land which sold for \$16.46 in 1949 now sells for \$37.17. In the city of Toronto land which in 1949 sold for \$20.02 a foot now sells for \$43 a foot. In Montreal, land which in 1949 sold for \$19.73 a foot now sells for \$42.25 a foot. The price of land has doubled in that period of time. Where we have had land assembly under section 35, we have been able to keep our prices down to about \$20.70 a foot. That is applicable in a few of the larger municipalities. There is a very firm and strong belief in this committee and throughout the country that land speculators in the large urban centres have made a "killing", while the

municipalities have sat by and allowed them to "jack-up" the cost of the land with the result that they have added about a thousand dollars to the cost of a house. I would like your comments on that.

Mr. MOONEY: The situation that you describe, Mr. Chairman, is pretty general across the country, not only in the cities that you have intimated, but in other cities, and even the smaller towns have experienced this substantial increase in land values over the last few years. So far as the municipalities are concerned, I see no way in which they could have prevented this with any legal restraint within their power. Land developers, or to use your term, "speculators", have seized the opportunity, again using your term, "to make killings" across the country. The demand for new housing, particularly in the large cities and in the fringe suburban areas has been high and with the demand as high as it has been raw land has come into useable land, and has had an effective market even at the high prices they have been charging. The community itself has really contributed much to the enhanced value that has occurred on the land, but those who would benefit from it have been those who would own the land.

The CHAIRMAN: At the bottom of page 4 of your brief you say: "The federation is of the view that this provision of the National Housing Act could be made more use of than it has to date." That is, section 35?

Mr. MOONEY: Yes.

The CHAIRMAN: "The establishment of a reasonable reserve of serviced land is essential if we are to continue to keep pace with the housing requirements of Canada's growing urban population." Let us answer, Mr. Mooney, that we have made some mistakes and there is nothing we can do about them. We are not here to attach blame, but we are attempting to find solutions. What can we do in the future? What are the municipalities going to do in the future to acquire land so we can have serviced land to continue on with our program for building 100,000 to 125,000 new houses a year?

Mr. MOONEY: If the provision for serviced land could be made available through the resources provided under section 35 of the Act, and if this in effect became the practice rather than the exception, then a great deal of the high land costs which we have experienced in recent years would, I believe, be levelled down, and I think the figures would reveal themselves much in the manner of the figures which you have suggested. You have suggested that the increase in value under C.M.H.C. and the acquisition under the 75-25 formula has resulted in a much lesser increase in land costs, than has been true where this formula has not been operating; therefore we believe that greater usage of the formula would have the effect of keeping land values in reasonable check and thereby be a factor in decreasing the over-all cost of housing.

The CHAIRMAN: Yes. Then, will you, Mr. Mooney, with the assistance of your very worthy president, do this for us? Will you do a little promoting after you leave here, to assist us to bring to their attention the benefits of Section 36 so that in the future we will have some way of cutting down the over-all cost of housing?

Mr. MOONEY: Mr. Chairman, the federation will not only do that but we have already initiated processes to arrive at that, having had lunch with Mr. Mansur. We are already working out ideas whereby Central Mortgage and Housing Corporation in conjunction with the federation might do a better promotion job for the municipal government.

The CHAIRMAN: Are you aware of the Edmonton experiment?

Mr. MOONEY: I am aware of a number of experiments in Alberta.

The CHAIRMAN: I am not talking about the Alberta experiment, just Edmonton. I understand Edmonton will not allow services to be installed unless the city owns the property.

Mr. MOONEY: I am not aware of it.

The CHAIRMAN: You remember Mr. Stewart's question this morning. It was a very important question: he talked about fringe areas, young people building homes and forming new municipalities, and these being unable to provide services. Can you tell us why these municipalities have not attempted to take advantage of the Municipal Improvements Assistance Act? Do you know of it?

Mr. MOONEY: Yes, we are familiar with the Municipal Improvements Assistance Act. It was our impression, if not our understanding, that the Act had become inoperative, consequent upon the fact that money votes are required for it which are not available.

The CHAIRMAN: I think you are quite right when you say it was your impression that the Act became inoperative. The Act is on the books and I am told there have been no applications for many years.

Mr. Low: Since the war. The Act was suspended in its operation at the outbreak of the war. It came into force in 1938.

The CHAIRMAN: It was passed in 1938, and under that Act they did exactly the things we are talking about, loaned money for schools, sewers, street paving, even hospitals. The Act is on the books. Perhaps this is an opportunity for you people to try to revive the Act.

Mr. MOONEY: I am sure that municipal governments, at least many of them across the country, will be glad to know that in fact the facilities available under the Municipal Improvements Assistance Act are still available if requests are made.

The CHAIRMAN: I said that the Act was on the statute books. It had been inoperative. It will not revive itself.

Mr. STEWART: Mr. Chairman, is it dead or dormant?

The CHAIRMAN: I do not know when an Act is dormant and when it is not, but there is no agitation to activate it.

Mr. MOONEY: The federation will be glad to endeavour to have it activated.

The CHAIRMAN: That is good.

Mr. STEWART: I have a question, Mr. Chairman, if you have finished.

The CHAIRMAN: Yes, go ahead.

Mr. STEWART: Regarding the matter of land assembly and the publicity given to it, we had one or two unhappy experiences of advantage not being taken of the provision because people did not want it. It was suggested in this brief that the corporation should pursue a more active publicity promotion policy. Have you any suggestion as to how that might be done?

Mr. MOONEY: It was suggested that Mr. Mansur might become a peregrinating Canadian. It might also be possible to put out a little more in the way of pamphlet material with respect to the matter. I think the federation, in co-operation with Mr. Mansur and his colleagues of the Central Mortgage and Housing Corporation, can devise ways and means whereby we can more fully inform and encourage municipal governments to avail themselves of it. What was said in the statement should in no way be interpreted as an admonition directed against the Central Mortgage and Housing Corporation, but it was only there to indicate that we thought that all sources interested in the general over-all housing problem in the country should bend their full effort to see that the fullest use is made of the facilities that we have available.

The CHAIRMAN: In section 35, where we have the 75-25 arrangement, as I understand it, in most provinces the municipalities must absorb from 7½ to 12½ per cent of the share of the Province. Is that your experience?

Mr. MOONEY: I understand it varies.

Mr. MANSUR: There is a variation from a low of $7\frac{1}{2}$ in Ontario to a high of full participation in New Brunswick.

The CHAIRMAN: $12\frac{1}{2}$ per cent?

Mr. MANSUR: No, 25.

Mr. HELLYER: Are there any provinces in which the municipality does not participate at all?

Mr. MANSUR: In Newfoundland they do not participate. There have been variations of the Ontario deal which have had very much that effect.

The CHAIRMAN: I was going to ask you if in your opinion it was that percentage of participation that was causing the reluctance on the part of the municipalities?

Mr. MOONEY: I think in some instances that would be so.

The CHAIRMAN: Is there any other condition? They do receive something less than normal in taxes, don't they?

Mr. MOONEY: No, not under this arrangement; not so far as the land assembly is concerned.

The CHAIRMAN: What would be the other reasons? Any other reasons?

Mr. MOONEY: General reluctance and timidity on the part of municipal governments to assume higher financial obligations.

Mr. Low: I was going to mention, Mr. Chairman, the same thing which you brought up, the Municipal Improvements Assistance Act; and since you have brought it up I will not bother to mention it further except to say that, based on that same principle, each province has made available to the municipalities moneys for self-improvement projects, including servicing of land for housing purposes on the same basis. What I want to find out from the witness is this: Referring to the statement on page 12, where you tell about the expanding urban population and so on, the requirements in the cities, you say "To meet this situation the federal government might well consider whether the time has not arrived for appropriate measures to be introduced", and so on. I wondered when the brief was read why it was that you mentioned the federal government in this case and I should like a little more information on it, if I may. Did you feel that because your population is expanding so rapidly, and because of the consequence of such things as the immigration policy, that perhaps some responsibility devolved upon the federal government to render assistance directly? Perhaps you would enlighten me on that?

Mr. MOONEY: There are 10 provinces within the framework of Confederation, and there are 10 varying provincial policies with respect to their municipal governments. Some of the provincial governments have brought down quite excellent legislation which facilitates the financing of municipal public works. I refer to Alberta and Ontario. Mr. Mansur mentioned this morning that in other provinces there is no comparable facilitating arrangement available. One hesitates to use the word, but as a result, the municipal governments are operating almost within a series of "balkanized" states, without a similarity of arrangement available across the country. Therefore, we thought that a uniform factor, or instrument that might receive some measure of common municipal aid for all municipal governments, irrespective of whether or not there was facilitation by provincial legislation, would be a federal government authority.

Mr. Low: One means would be to use such legislation as the Municipal Improvement Assistance Act. I think that would be an excellent thing. Now, what are the things causing this very great expansion of your urban population, and throwing such a weight on your finances?

Mr. MOONEY: Well, the chief factor, of course, is the steady and consistent high ratio of indigenous growth of population in the country. Another factor is the discernible movement from rural to urban areas; another factor is the decentralization of industry, with a greater spread of industry into smaller towns. The situation around Edmonton is a very good example of what has happened in one municipality in Canada. To a degree it has happened in many municipalities in Canada since the end of the war. There has been this mushroom growth. Immigration has not, I would think, been a major factor, but it has been a contributing factor in the expanding growth of urban communities across the country.

Mr. Low: It may be 90,000?

Mr. MOONEY: Well, the spread across the country has not been a great factor, but one major industry today can bring into a community several thousand employees who were not there before that industry came into being.

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell:

Q. I want to go back to the question of low rental housing particularly as referred to on page 8. I have been inquiring about this from time to time as we went along. When we were first questioning Mr. Mansur I suggested that it seemed to me that the inducements to low rental housing in the bill were nothing like comparable to those for home ownership. I recall that Mr. Mansur, when he was testifying, said definitely that he thought that low rental housing was a most urgent need. Mr. Mansur said that but he also qualified his answer to some extent by saying that not all of his colleagues agreed. Let me read briefly from page 8. I want to be clear on whether this bill, as it stands, is likely to do anything substantial to improve the situation, in other words, to stimulate low rental housing. I shall read now from the middle of page 8 as follows:

The great unmet housing want in Canada is rental housing for low-income families. The proportion of low rental housing construction to the total volume of new housing that has been built in Canada since the first National Housing Act of 1935 was introduced has been pitifully negligible.

I shall skip a paragraph and read as follows at the bottom of page 8:

The National Housing Act has provided generous facilities whereby the problem might have been tackled in an energetic way but, save for a few notable examples, there has been little disposition on the part of either the provincial or municipal governments to take advantage of the facilities available. There is considerable public apathy with respect to the matter and active opposition to the idea of public housing in some quarters.

And finally I read this last paragraph, because we are coming to what I hope will be your opinion of what is going to be done, or to be expected or not expected from this legislation. I read:

It is perhaps because of these considerations that the federal government itself appears to be somewhat reticent in encouraging the use of those provisions in the National Housing Act whereby a large-scale program of slum clearance and low rental housing could be undertaken.

I bring that forward to get your opinions as to what we can expect and not expect from this legislation.

I think that many witnesses and many members of the committee have feared from the outset that it would not solve the problem. It is a difficult problem, that of getting down really to the people of lower income. And I was quite struck with what Mr. Wismer said the other day when I asked him what he thought was most needed and he said that he was afraid he would have to say low rental housing was the greater need, because people could get into a house in that case without having to experience the difficulties of financing down payments. He gave that as the chief reason.

Mr. MOONEY: First of all, let me say that by "low rental" in this brief we mean "low rental". We do not mean rental housing. We mean such housing as well come within the brackets or the financial ability to pay rent of that great group in the community who broadly are referred to as low income families.

Mr. MACDONNELL: Can you put a monthly figure on it?

Mr. MOONEY: It would be difficult, but the average income in Canada is around \$3,600 a year. I would say that these would be people in receipt of less than \$2,400 a year.

Mr. MACDONNELL: With your knowledge, could you suggest a monthly rental figure on that.

Mr. MOONEY: Yes. I would say it would be a rent of \$25 to \$35 a month. Now it was pointed out this morning, and it is certainly true, that no project involving low rental housing that has been brought to the consideration of Central Mortgage has been refused; and indeed, that they have encouraged the projects which have been brought forward.

I am endeavouring to express the feeling of some municipal people who are responsible for this part of the brief that Central Mortgage might be pursuing a more aggressive promotion and interpretation policy to stimulate more active interest by municipalities in low rental housing projects. So we point that out in the brief, and we go farther and we suggest in the brief that despite the fact that while there are some municipalities presently working on slum clearance and low rental housing projects, there may be local factors which might inhibit the realization of those projects. With the best of intentions on the part of the local community, it may not be possible for them to realize their plan, partly, in some instances, it may be because the provincial governments are not disposed to go along with the plan. Therefore the plan is neutralized. And as Mr. Asselin points out, even with the participation and co-operation of provincial governments, there would be some municipalities where, for other reasons, they would be unwilling to go forward with the low rental scheme.

Mr. MACDONNELL: Would it be fair to say that really your only hope for improvement in the low rental field is that it should be better publicized and you will build up a better attitude toward it?

Mr. MOONEY: Yes. This is a personal opinion rather than a federation opinion, but I would be not at all sanguine that many a low rental project will come into being as a result of the provisions of the present Act, which are the provisions which existed in the previous Act, unless some new factor is introduced which is presently not in the situation, and the new factor which we are suggesting is a series of completely federally sponsored low rental housing projects as demonstration projects in those communities in Canada where there is over-crowding and a need of low rental housing. We suggest this would serve the public by demonstrating to the communities just what low rental

housing is, how it operates and administers and thereby arouse further interest in projects of that nature and at the same time deal effectively with some of the criticisms raised against the idea of low rental housing in Canada.

Mr. Low: I wonder if I could ask Mr. Mooney this question: do the members of your organization reflect a general aversion across Canada to building low rental housing projects by the municipalities? Is there some feeling against it?

Mr. MOONEY: To the contrary, there is a general feeling that we should have low rental housing.

The WITNESS: That means very heavily subsidized low rental housing. Municipalities have responsibilities and obligations that have gone up to such an extent that very few of us would dare to embark on any scheme of low rental housing thereby meeting a tremendous resistance on the part of tax payers to subsidized houses to a very large extent due to the very heavy cost of construction at the moment.

Mr. Low: I think that that would account for the municipalities' hesitancy. What about the provincial governments?

Mr. MOONEY: I do not think that any of us are anxious to comment on that.

The CHAIRMAN: You can comment in general without being too specific. What do you think?

Mr. Low: The experience which you have had that you could pass on to us would be interesting.

Mr. MOONEY: The experience I have had is that not all provincial governments are yet convinced that they can embark upon such heavily subsidized low rental housing for fear that possibly they might have to carry part of the burden.

Mr. HANNA: Mr. Low has spoken of the province of Alberta, and in answer to his own question would he tell us why the province of Alberta does not participate under Section 35?

The CHAIRMAN: He is not a witness, but I am told that Alberta does participate under section 35.

Mr. Low: I think you had better find out what you are talking about.

Mr. HANNA: I think I should be allowed to make the situation clear. As I understand it Alberta does participate but it is like New Brunswick, the municipalities must put up the 25 per cent.

The CHAIRMAN: Now you can ask Mr. Low.

Mr. HANNA: The municipality must pay 25 per cent and some municipalities in Alberta find it difficult to find their 25 per cent share. My question is: why does not the province put up 10, or 15, or 25 per cent?

The CHAIRMAN: The province of Alberta does participate under section 35. That is as far as we can go here.

Gentlemen, you have an opportunity here to pick the brains of these two top municipal men. You may not have an opportunity again for some time and you should not let them get home any too easily. This is an opportunity to really assess this problem.

Mr. JOHNSTON: I would like to ask a question since you are getting so generous with the time. That is rather a change in your attitude. There is one thought that comes to my mind. In several of the presentations made before the committee there has been a suggestion made that if the standard of housing was lowered somewhat it might induce people to build more houses. What is your view on that?

Mr. MOONEY: I do not believe that the municipal governments of Canada would be happy about the idea of lowering the standard of housing below the standards that houses have been constructed under during recent years. Indeed in respect to some of the housing they are not very happy. I refer particularly to the expediciencies we had to resort to during the war with respect to wartime housing.

Mr. JOHNSTON: You do not think in your judgment that it would be a good thing even for the low rental housing schemes?

Mr. MOONEY: Not in a durable commodity like housing, no. It seems to me that a house which shelters a family ought to be a well constructed home, not necessarily a lavishly constructed home, but one where the standards should be high, not low.

The CHAIRMAN: Mr. Mooney, let us draw on your experience again. You speak of credit worthiness in discussing the down payment and discussing the gross income and then you have further reference to family income.

Mr. MOONEY: Do you wish me to expand that?

The CHAIRMAN: Yes. I would like you to expand that.

Mr. MOONEY: After that statement was written in the brief, I read a statement which Mr. Mansur made a day or two ago before the committee wherein he stated that in effect the 23 per cent figure mentioned is a flexible figure and that there is room wherein it could be extended to include the things we had in mind when we talked about a family income as being direct income to certain mortgagors. We had in mind those instances where, in addition to the head of the family, there may be a relative who will be living permanently with the family as a roomer and his income might be regarded in part because he pays rent which is part of the family income thereby increasing the 23 per cent to whatever proportion that increase accounts for. There are many families where the income is not solely dependent upon the earnings of the head of the family. That was one of the considerations we had in mind when we talked about the idea of defining income to include family income where that can be construed as forming part of the direct income of the mortgagor.

The CHAIRMAN: What I wanted particularly were your views on the 23 per cent. When you speak of credit worthiness; what magic has the 23 per cent got?

Mr. MOONEY: I would not consider that it has any particular magic, and I take it from Mr. Mansur's observations of a day or two ago that he did not regard it as having any particular magic. It is a figure roughly arrived at which would indicate that percentage of a man's income upon which he could afford the carrying charges of a house. Now, when you talk of being creditworthy, if you would like me to talk about that, I suppose one gets into the field of social economics here more than into the field of strict economic appraisal of income, but I would think that a man with a certain type of what would appear to be a permanent occupation even if only receiving a modest income of \$200 a month would be quite as creditworthy over the long term of the house as a man who receives \$500 in a relatively insecure position.

The CHAIRMAN: Exactly.

Gentlemen, I am encouraging you to pick the brains of these men.

Mr. PHILPOTT: I would like to ask a question about low rental housing. The figures you gave were for people with incomes of around \$2,400 a year or less, and you said that you thought they could stand around \$25 a month rent. Section 35 now fixes the percentage.

Mr. MOONEY: Yes.

Mr. PHILPOTT: How does that work out? We are talking now about the percentage of rent for these low income families getting around \$2,400 a year, and Mr. Mooney suggested the most these people could pay was around \$25 a month rent. How does that compare with the percentage now allowed under Section 35?

Mr. MANSUR: The percentage of rent to income under the scale adopted for section 35 projects varies by income and size of family. A decreasing percentage of a family's income is payable as rent as the size of the family increases and as the level of income goes down. Now, for a family with say three children at \$2,400, I would guess that the rental from the scale contained in the section 35 agreements would be of the order of 15 per cent to 16 per cent of the income, but if that same family had an income of \$3,000 a year, then it would be 18 per cent to 19 per cent.

Mr. PHILPOTT: I see—

Mr. MANSUR: And if the family had 8 children then the percentage would probably be of the order of 11 per cent or 12 per cent.

Mr. PHILPOTT: Well, that is pretty plain proof that whoever designed section 35 did not regard the per cent rule as a very good rule. In other words, you considered the social need was greater than the mathematical ratio?

The CHAIRMAN: They are two different things.

Mr. MANSUR: Yes, they are two different things. In connection with the operations of part 1 of the Act, the determination is the economic credit worthiness of the borrower to discharge his obligations. In the case of section 35, the federal provincial projects, the criterion is the amount of rent that that family can afford to pay so the subsidy will not be paid to those who did not need the subsidy.

The CHAIRMAN: One is home ownership as against low rental.

Mr. PHILPOTT: Mr. Mooney talks about the low rental projects and there is an implication of severe criticism that it has fallen down on the job so far as promotion is concerned. What is the factor that has made it a success? In other words, why did we get them in the places we have got them? Who was the push behind it? It was not the government's advertising or propaganda?

Mr. MOONEY: No, I think the best example of low rental housing in Canada is the Regent Park development in Toronto.

The CHAIRMAN: No, we are not talking about the same thing, are we?

Mr. MOONEY: I thought I was talking about the same thing. It is true that this development concerns slum clearance, but it is also a low rental housing project.

The CHAIRMAN: All right.

Mr. MOONEY: Here was an area of Toronto which for many years, Mr. Philpott, remember, has been the subject of concern to the people of Toronto, and the idea of a redevelopment project in the Regent Park area would I think have preceded the National Housing Act rather than followed it, but the effect of the National Housing Act brought it into a practical possibility. I would take it you had an accumulated concern over the years which found expression in the ready acceptance on the part of the Toronto people to go ahead with the project. Moreover, in the city of Toronto, there was in existence a Toronto Housing Authority, an instrument which many municipalities in this country lack, and I would think a good deal of the stimulus which made it possible eventually for the Regent Park development to go through was a background related to the activities of the Toronto Housing authority.

Mr. PHILPOTT: Yes, but...

Mr. MOONEY: Apart from that, if I may conclude, there was a great deal of articulate and vigorous demand on the part of welfare people, church people, city council people and other people in Toronto to go ahead and really do that job. Now, where you had all those forces happily combining, such as occurred in the city of Toronto, the result was the Regent Park project. That may not be a valid interpretation of what happened, but certainly some of those factors were operative in the Toronto situation, and to a great extent very few of these factors are operative in other communities.

Mr. PHILPOTT: My observation is that up until now the trade unions in Canada, which are extremely powerful, have done very little to propagandize or push for this thing. Would you think it would be right if the trade unions really got behind section 35 and really got the thing spreading?

Mr. MOONEY: I think it would have a great influence.

Mr. PHILPOTT: That is all, thank you.

The CHAIRMAN: If there are no more questions, gentlemen, on your behalf I want to thank Mr. Asselin and Mr. Mooney.

Mr. HELLYER: When is the next meeting?

The CHAIRMAN: The next meeting will be Monday at 3.30 in the afternoon.

APPENDIX "A"

SUMMARY OF HOUSING BILL-S. 2938
SENATE OF THE UNITED STATES OF AMERICA

Title I—FHA Insurance

1. Increases improvement and repair loans from maximum of \$2,500 to \$3,000 and repayment period from 3 years 32 days to 5 years 32 days. Changes the existing maximum of \$10,000 for multi-family improvement or conversion loans to \$1,500 per family unit or \$10,000, whichever is greater, and the maximum loans terms from 7 years 32 days to 10 years 32 days.

2. Consolidates and simplifies statutory provisions limiting FHA mortgage terms and changes statutory mortgages limits so that the President under his discretionary authority (provided in title II) could raise mortgage limits on sales housing to \$20,000 on a one or two-family house as compared to the present ceiling of \$16,000, to \$27,500 for a 3-family home as compared to the present \$20,500 limit, and \$35,000 for a four-family home as compared to the present \$25,000 limit. Maximum ratio of loan to value would be not to exceed the sum of 95% of first \$8,000 and 75% in excess of \$8,000. Under these provisions minimum down payments could be \$400 on an \$8,000 house, \$900 on a \$10,000 house, \$1,400 on a \$12,000 house, \$2,150 on a \$15,000 house, and \$3,400 on a \$20,000 house.

3. The same mortgage terms would be made applicable to existing housing as to new housing.

4. Maximum repayment period on all loans could be increased by the President up to 30 years.

5. Permits the insurance under Section 207 of existing multi-family structures, if located in a slum or blighted area and if part of loan is used to repair and rehabilitate the property.

6. President given authority to increase mortgage amounts for multi-family rental housing under Section 207 on elevator type structures up to \$2,400 per room (present limit \$2,000) but where less than 4 rooms, \$7,500 per family unit (present limit \$7,200). \$10,000 per family unit limitation removed.

7. Where 65% of cooperatives are veterans maximum mortgage can be increased by President to \$2,375 per room (\$2,250 if less than 65%), and if elevator type up to \$2,850 per room (\$2,700 if less than 65%).

8. The maximum loan to cooperatives (Section 213) would be increased from \$5 million to \$25 million if the mortgagor is regulated or supervised under law as to rents, charges and methods of operation.

9. Consolidates all mortgage insurance authorizations and increases FHA insurance authorization by $1\frac{1}{2}$ billion dollars plus up to $\frac{1}{2}$ billion dollars with approval of President.

10. Changes title II Mutual Mortgage Insurance Fund by eliminating group accounts and substituting a general surplus account and a participating reserve account.

11. Authorizes new Section 220 FHA insurance on new or existing family dwellings in designated areas in urban renewal areas and where HHFA has approved community programs for slum prevention and urban redevelopment. In such areas authorizes loans on houses with more than 4 family units of \$35,000 plus \$7,000 for each additional unit over four. For multi-family

units insurance on 90% loans with maximum of \$2,250 per room (\$2,700 in elevator type). Loan insurance would be available on same terms as in Section 203 (sale) and Section 207 (multi-family rental) until President authorizes higher limits within provisions of Section 220.

12. Authorizes a new Section 221 FHA insurance program on low-cost housing for families displaced as a result of slum clearance operations or Government action, where community requested such insurance and it met eligibility requirements of HHFA. The FHA Commissioner would determine the need and the number of units to be insured in a particular area. It provides:—

- a. Maximum insured loan of \$7,000, 100% insurance, (\$200 cash down required for closing costs) 40 year loans on new or existing structures.
- b. Insurance of \$7,000, 100% 40 year loans for repair and rehabilitation of dwellings for more than 10 families where mortgagor is non-profit organization, public or private, and regulated by Federal or State Government as to rents and charges.
- c. 85% 40 year loans to builders to facilitate sales to owner-occupants under purchase contract or lease option agreements.
- d. Option to assign mortgages not in default after 20 years to FHA for 10 year debentures at Federal going rate at date of issuance.

13. Extends Military Housing (Title 8) to July 1, 1955.

14. Terminates Defense Housing (Title 9) at expiration date July 1, 1954.

15. Authorizes FHA insurance of "open-end" mortgages on one- to four-family houses.

Title II—Mortgage Interest Rates and Terms.

1. Authorizes flexible mortgage rates and terms.

- a. Gives President authority to set maximum interest rates on FHA and VA loans at different levels for different classes of mortgages, but could not be more than $2\frac{1}{2}\%$ above average market yields on federal bonds having remaining maturity of 15 years or longer.
- b. President authorized to establish limits on FHA and VA fees and charges.
- c. President authorized to establish maximum maturities and minimum down payments on FHA and VA loans, also maximum dollar limitations on FHA mortgages.

2. Repeals Section 504 of Housing Act of 1950 relating to fees and charges.

Title III—Federal National Mortgage Association

1. Recharts FNMA as constituent agency of HHFA, with HHFA Administrator as Chairman of Board of Directors of five Government members.

2. Authorized to purchase FHA and VA mortgages or participations not to exceed \$12,500 per family unit.

3. In effect, capital and surplus of existing FNMA would be used to capitalize new FNMA (estimate at \$70 million).

In connection with the secondary mortgage facility (see 4) capital contributions of not less than 3% of the mortgage or participation amount would be required of all sellers to the Association. In return nonrefundable convertible certificates would be issued to the sellers, to be exchanged for capital stock when Treasury stock is retired.

4. Establishes a new secondary mortgage market facility.
 - a. To purchase eligible mortgages at prices (not above par) for particular classes of mortgages as determined by Board of Directors. Volume of purchases and sales, prices, charges and fees would be determined with the view that excessive use of the Association's facilities should be avoided.
 - b. May enter into one for one contracts, but otherwise may not make advance commitments.
 - c. To issue Association non-guaranteed obligations, not in excess of 10 times its capital, surplus, reserves and undistributed earnings to carry out its secondary market operations.
 - d. The Secretary of Treasury is authorized to invest in such obligations up to \$500 million, plus an amount equal to reduction in FNMA present portfolio, but not more than \$1 billion, until Treasury stock in Association is retired.
5. Provides special assistance functions.
 - a. President could authorize advance commitments and purchases of mortgages of various types and classifications as a support for special housing programs or to retard a serious market decline.
 - b. Treasury would supply funds in return for obligations of not more than 5 years maturity.
 - c. President could authorize not more than \$200 million in purchases and commitments to be outstanding at any one time, but would have additional authority up to \$100 million to enter commitments for mortgage participation agreements for a fixed 20% undivided interest in each mortgage, but with a deferred participation agreement to purchase the remainder in the event of default.
6. Liquidation of existing FNMA portfolio.
 - a. Issue to public non-guaranteed obligations against its assets. The funds so obtained would be used to reduce existing Treasury's investment.
 - b. Treasury authorized to purchase Association's obligations in sufficient amount to carry out Associations liquidation functions. Such obligations would have maturities of 5 years or less and the interest rate would be based on the average rate of outstanding government obligations.
 - c. \$300 million of the present authorization of FNMA for mortgage purchases would be made available for the special assistance program. (See 5).
7. Separate accountability would be maintained for the (a) secondary market operations, (b) special assistance functions, and (c) management and liquidating functions of the re-chartered FNMA.

Title IV—Slum Clearance and Urban Renewal.

All the amendments are designed primarily to broaden and redirect the present slum clearance and redevelopment program so as to assist not only the communities in clearing their slums, as is presently provided, but to prevent their spread by rehabilitating and improving blighted, deteriorated, or deteriorating areas. The criteria, terms, and definitions of Title I of the Housing Act of 1949 are changed in accordance with the broader scope of the program. In these larger areas, known as urban renewal areas, there could be carried out (in addition to the slum clearance and redevelopment now

authorized) plans for voluntary repair and rehabilitation of buildings, clearance of deteriorated structures, and reconstruction of streets and other necessary improvements.

Requirements with respect to local responsibility and local action would be strengthened and increased.

The requirement that a commercial or industrial deteriorated area may be cleared with Federal assistance only if the area be redeveloped for predominantly residential purposes is eliminated. In other words, a deteriorated commercial site can be redeveloped for commercial purposes. However, there would be substituted a requirement that the project be in accordance with an urban renewal plan to achieve "such community objectives for the establishment and preservation of well-planned residential neighbourhoods."

The 2/3 - 1/3 formula for Federal local grants now in the law would not be changed. However, in the gross project cost might be included, in addition to those items now included, expenditures for carrying out plans for a voluntary repair and rehabilitation and the acquisition of property for the broader purpose indicated above, as well as the installation, construction and reconstruction of streets, utilities, parks, playgrounds and other improvements (which need not be in a slum clearance area) necessary for carrying out the urban renewal plan.

Title V—Low-Rent Public Housing.

1. Extends preference in public housing, now limited to those displaced from public housing or slum clearance projects, to include also those displaced by other public actions, such as code enforcement and closing of structures, highway constructions, etc.

2. Makes payment of 10% of shelter rents in lieu of taxes mandatory for public housing projects, except where this would reduce local contribution to less than 20% of the Federal contribution.

3. Permits localities to elect to charge full taxes provided they make up the difference in cash to maintain a local contribution equal to 20% of the Federal contribution.

4. Requires that the governing body and the public be informed of total local contribution, including the difference between payments in lieu of taxes and amount that full taxes would require.

5. Provides that after projects are fully amortized, that net revenues go proportionately to Federal and local governments on the basis of their contributions, in order that in time such contributions may eventually be recovered, as far as possible, and the projects be made self-liquidating.

Title VI—Home Loan Bank Board.

1. Provides method whereby Federal Savings and Loan Insurance Corporation may be served with notice of suit anywhere, and not just in the District of Columbia. Also bars enforcement of claim against the Corporation after three years from date of default, or, if the Corporation denies validity of the claim, after two years from the date of denial.

2. Increases maximum loan that a Federal savings and loan association may make (beyond exception already allowed) to \$35,000, instead of the present \$20,000 limit, set in 1933. Makes comparable changes as to collateral acceptable by Federal Home Loan Bank for advances. Also provides procedures for appointment of conservators and receivers of Federal savings and loan associations.

Title VII—Urban Planning and Reserve of Planned Public Works.

1. Provides \$5 million to Housing and Home Finance Administrator for planning grants up to 50% of estimated cost to state, metropolitan, and regional area agencies for metropolitan or regional planning, and the State planning bodies to assist municipalities under 25,000 in urban planning.

2. Provides \$10,000,000 to resume non-interest-bearing planning advances to local and state bodies for public works plans, repayable when construction is undertaken, in order that such works can be ready for construction if the economic situation should require it.

Title VIII—Miscellaneous Provisions.

Includes exemptions from preference provisions of unusual types of permanent Lanham Act projects and provides for a consolidated report to Congress on Agency's activities instead of assorted reports on various programs and activities . . . Provides for consideration to be given to the reduction of vulnerability of congested areas to enemy attack in carrying out housing programs.

APPENDIX "B"

THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION
TORONTO 1, CANADA

JANUARY 14, 1954.

Dear Mr. Mansur:

Re: National Housing Act, 1954—Bill 102
Insured Mortgage Loans

We have now had an opportunity of reviewing the relevant sections of Bill 102 having to do with the proposal for insured mortgages. We would like to thank you for sending us copies of the Bill immediately upon its introduction in the House of Commons.

The drafting of a bill dealing with such a complex subject is a difficult and exacting task at any time but even more so when, as we know, the drafting was accomplished under very considerable pressure. We have certain amendments to suggest for your consideration—some to give effect, as far as the Bill itself is concerned, to our understanding of the proposal as it was developed and others to clarify the intention of some of the provisions.

We appreciate that amendments may be made only by Parliament but in the light of our discussions with you and our previous submission to the Hon. Mr. Winters and the Hon. Mr. Abbott we are sending this letter to you and would ask that you bring our comments to their attention. To facilitate this we are enclosing two additional copies.

Our comments are as follows:

Section 3. In order that foreign and British insurance companies may be placed in a position to take full advantage of the Act it will be necessary for the mortgages to be acceptable for deposit under the Insurance Act. At the present time the provisions of these acts would not permit the deposit of such mortgages. We understand that the Government is disinclined to open up

the Insurance Acts at the present session of Parliament. Consequently we would ask that Bill 102 be amended by the addition of new section 3A and 3B as follows:

“3A Notwithstanding anything contained in the Canadian and British Insurance Companies Act a British company registered to transact the business of insurance under that Act may best in trust for the purposes of that Act loans and investments made pursuant to this Act.

3B Notwithstanding anything contained in the Foreign Insurance Companies Act a company registered to transact the business of insurance under that Act may best in trust for the purposes of that Act loans and investments made pursuant to this Act.”

Section 4. This is the section which deals with the maximum rate of interest. We appreciate that the present wording follows the previous Act but we do not think that the wording expresses the intention. We think for example under (a) it is intended that if the Government bond rate is 3.65% there is to be added a rate of 2.25% making a maximum rate of 5.90%. As it reads we think it is open to the interpretation that the maximum rate could be 3.65% plus 2.25% of 3.65% or a total of 3.73%. Accordingly for the sake of clarity we believe that the section should be amended by substituting the words “plus a rate of” for the words “by more than” in each of (a) (b) (c) and (d) of subsection (2).

Section 6 subsection (3). It seems to us that the use of the word “paid” by itself is open to doubt. Our suggestion is that there should be added to the subsection after the word “paid” in the penultimate line the words “to the Corporation”.

Section 6 subsection (4). A similar doubt it seems to us exists as to the use of the word “paid” in the third line of this subsection. In addition, since the fee paid to the Corporation pursuant to subsection (7) may differ from that charged to the borrower, we suggest that the words “subject to subsection (7), to the Corporation,” be inserted immediately following the word “paid,”.

Section 6 subsection (5). The same point arises in this subsection and we suggest that after the word “paid” at the end of the subsection the words “to the Corporation” be added.

There is the further point that subsection (5) deals with the case where an insured instalment loan, in the opinion of the Corporation, cannot be fully advanced, but does not deal with the case of a loan which cannot be fully advanced because the borrower will not take the full amount. It has been our understanding that in such an event a loan would be insured and we ask that this situation be covered in the Bill. Our suggestion is that the present subsection (5), as amended as suggested above, be designated as (5) (a) and that there be added a new paragraph designated (b) and reading as follows:

(b) where the Corporation is satisfied that an approved loan cannot be fully advanced in accordance with this Act by reason of the refusal of the borrower to take part of the loan, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of that part of the loan which has been advanced, if the insurance fee has been paid to the Corporation.

Section 6 subsection (6). We believe that this subsection presents real difficulty in interpretation because of the fact that a loan to be insurable must be for an amount which includes the amount of the insurance fee. As we interpret the subsection, it seems to say that the insurance fee is to be calculated on what might be called the “basic” loan and also on the insurance fee itself. This difficulty would seem to spring from the use of the expression “approved loan” in the second line. We believe therefore that this subsection should be amended by substituting for the words “an approved” in

the second line the word "a". With this change we feel that it is clear that the insurance fee is not to be calculated on the loan and also on the insurance fee.

Section 7 subsection (1). Because of the reference in section 3 to an approved lender "subject to the jurisdiction of Parliament" there is doubt as to the eligibility of other approved lenders such as British or foreign companies or companies with provincial incorporation to make insured loans. This distinction has been particularly provided for in section 19 (6) and section 21 (10) in connection with rental housing and land assembly projects.

We suggest therefore that the first line of section 7 subsection (1) be amended by adding the words "it was made by an approved lender and if" in the belief that this would cover the point.

Section 7 subsection (1) paragraph (a). We would suggest that the word "sound" in the second last line be deleted. We believe that once the Corporation has prescribed standards pursuant to section 12 (2) (a) they should govern the insurability of the loan.

Section 7 subsection (1) paragraphs (c) to (l). Much difficulty is created by the use of the word "paid" in respect of the insurance fee in paragraphs (c) to (l) inclusive since the amount of the fee paid to the Corporation in the case of some types of loans will not be the same as has been paid by the borrower. Moreover at the time it is determined whether a loan is insurable or not the fee will not yet have been paid.

Our suggestion is that the word "paid" be deleted in each of paragraphs (c) to (l) inclusive.

Section 7 subsection (1) paragraph (n). Section 12 would seem to contemplate that the form of mortgage might be prescribed either by regulation of the Governor in Council or by the Corporation.

We therefore suggest that after the word "prescribed" at the end of the first line there be inserted the words "by regulation or".

Section 7 subsection (1) paragraph (r). This paragraph would prevent the insurance of a loan where the instalments are not determined by the Corporation. It has been our understanding that a loan could be made by way of instalments determined by the lender and where the insurance would not apply until completion of the construction.

To make such loans insurable it is necessary to amend this paragraph and our suggestion for amendment is that the paragraph be reworded to read as follows:

- (r) It was advanced to the borrower
 - (i) on completion of construction as determined by the Corporation, or
 - (ii) in instalments determined by the lender during the course of construction where construction has been completed as determined by the Corporation, or
 - (iii) in instalments determined by the Corporation during the course of construction;

Section 9 subsection (1). This is the subsection which sets out the formula for the calculation of the claim for the settlement of the insurance. The last part of the subsection deals with the allocation of payments received for the credit of the mortgage account. The subsection says that the amounts received for the credit of the mortgage account which may be dealt with are only those which are received during the "default period". This period is defined under paragraph (c) (i). The effect of the combination of the use of "default period" and the definition referred to is that it is not possible to

determine what amounts received are eligible for application because the period becomes a flexible one. In other words the "default period" cannot be ascertained until the account is recalculated but the account cannot be recalculated until the default period is known.

To give effect to what we understood to be the intention, and in order to make the formula workable, it would appear that the words "during the default period" in the fifth line from the end of the subsection should be deleted and that there should be substituted the words "when it was in default".

Section 9 subsection (2). In paragraph (b) we suggest that after the last word of the paragraph there be added the words "or by the Corporation". This suggestion is made to give more flexibility.

Section 9 subsection (4). We believe it to be highly desirable that the power of the Corporation not to require transfer of the property be made as elastic as possible so as to enable the Corporation to cope with such circumstances as may arise and which cannot be foreseen. We consider that the limitation of this power to cases where the loss would be unduly increased will be difficult of interpretation and will so restrict the discretion of the Corporation as to deprive the present provision of much value.

We suggest therefore that the following words be deleted: "and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan".

Section 40 subsection (4). In order to cover the case of an agency agreement between the Corporation and a lender other than one that is subject to the jurisdiction of Parliament, this subsection should be re-written, having in mind the provisions of section 3.

Our suggestion for such amendments is:

(4) When a loan is made under this section on behalf of the Corporation by an approved lender pursuant to an agreement

(i) made under paragraph (f) of section 3, or

(ii) made between the approved lender and the Corporation in the case of an approved lender that is not subject to the jurisdiction of Parliament but has capacity to make loans as agent for the Corporation,

the mortgage taken in respect thereof may be taken in the name of the Corporation or in the name of the approved lender as determined by the agreement.

We have noted that a number of matters important to the operation of the plan of insured mortgages have been left to be dealt with by regulation. Among these are some on which we have made representations to you and the Ministers. These regulations are still in the process of preparation.

We are anxious to co-operate and are at your disposal and that of the Ministers to meet with you or them in further discussion of this plan.

Yours very truly,

(signed) J. E. FORTIN

Secretary-Treasurer.

Mr. D. B. Mansur,
President,
Central Mortgage and Housing Corporation,
Montreal Road,
Ottawa, Ontario.

Canada - Banking and Commerce
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14.

BILL 102

An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

MONDAY, MARCH 1, 1954

TUESDAY, MARCH 2, 1954



WITNESSES:

The Honourable Robert Winters, Minister of Public Works;

Mr. D. B. Mansur, President, and Mr. H. Woodward, Assistant Secretary,
of the Central Mortgage and Housing Corporation.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

David A. Croll, Esq., *Chairman.*

and Messrs.

Adamson	Follwell	Michener
Applewhaite	Fraser (<i>Peterborough</i>)	Mitchell (<i>London</i>)
Arsenault	Fraser (<i>St. John's East</i>)	Monteith
Ashbourne	Gagnon	Nickle
Balcom	Hanna	Noseworthy
Benidickson	Hees	Philpott
Bennett (<i>Grey North</i>)	Hellyer	Picard
Boucher (<i>Restigouche-</i> <i>Madawaska</i>)	Henderson	Pouliot
Breton	Huffman	Quelch
Cameron (<i>Nanaimo</i>)	Hunter	Robichaud
Cannon	Low	Rouleau
Cardin	Johnston (<i>Bow River</i>)	Stewart (<i>Winnipeg</i> <i>North</i>)
Crestohl	Macdonnell	Thatcher
Croll	MacEachen	Tucker
Dufresne	Macnaughton	Weaver
Dumas	Matheson	Wood
Fleming	McIlraith	

REPORT TO THE HOUSE

WEDNESDAY, March 3, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as a

THIRD REPORT

Your Committee has considered Bill 102, An Act to Promote the Construction of new Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions, and has agreed to report the said Bill with amendments.

A reprint of the said Bill as amended has been ordered.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

(NOTE: *The Second Report of the Committee was on a Private Bill, in respect of which verbatim evidence was not taken*)

MINUTES OF PROCEEDINGS

MONDAY, March 1, 1954.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Cameron (*Nainaimo*), Cardin, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hees, Hellyer, Huffman, Hunter, Johnston (*Bow River*), MacEachen, McIlraith, Mitchell, (*London*), Philpott, Quelch, Rouleau, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary, of the Central Mortgage and Housing Corporation, and Mr. J. A. MacDonald, of the Economic Policy Division, Department of Finance.

The Committee commenced a detailed study of Bill No. 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

Mr. Mansur was recalled for examination during the detailed study of the various clauses of the said Bill.

The witness tabled a document entitled "Proposed Technical Amendments to Bill 102". The said document was ordered to be printed as an appendix to this day's evidence, and is to be found as *Appendix "A"*.

Copies of the Office Consolidation, 1953, National Housing Act, R.S.C. 1952, c. 188, as amended by 1952-53, c. 42, were distributed to members of the Committee.

It was agreed that all non-contentious clauses of the Bill be disposed of first. Any clause to which there was objection to stand for further consideration.

Clause 1 was carried.

On Clause 2,

subclauses (1) to (12) inclusive were carried; subclause 13 was allowed to stand; subclauses (14 to (18) inclusive were carried; subclause (19) was allowed to stand; subclause (20) was carried; subclause (21) was allowed to stand; subclause (22) was carried; subclauses (23) and (24) were allowed to stand; subclauses (23) and (24) were allowed to stand; subclauses (25), (26) and (27) were carried; subclause (28) was allowed to stand, and subclauses (29) to (36) inclusive were carried.

On Clause 3,

paragraph (a) was allowed to stand, and paragraphs (b) to (f) inclusive were carried.

Clause 4 was allowed to stand.

Clause 5 was carried.

Part I,

being clauses 6 to 13 inclusive, was allowed to stand.

On Part II,

being clauses 14 to 22 inclusive:

clause 14 was carried; clause 15 was allowed to stand.

On clause 16,

subclauses (1), (2) and (3) were carried;

subclause (4) was allowed to stand, and

subclause (5) was carried.

On clause 17,

subclauses (1) and (2) were allowed to stand;

subclauses (3) to (7) inclusive were carried,

and subclause (8) was allowed to stand.

Clauses 18 and 19 were allowed to stand.

Clause 20 was carried.

Clause 21 was allowed to stand.

Clause 22 was carried.

Part III,

being comprised entirely of clause 23 was allowed to stand.

On Part IV,

being clauses 24 to 30 inclusive:

clause 24 was allowed to stand; clause 25 was carried; clauses 26 and 27 were allowed to stand; clauses 28 and 29 were carried and clause 30 was allowed to stand.

On Part V,

being clauses 31 to 35 inclusive:

clauses 31 and 32 were carried. On clause 33, subclause (1) paragraph (d) was allowed to stand; paragraphs (a) to (c) inclusive, paragraphs (e) to (g) inclusive and subclause (2) were carried.

Clause 34 was allowed to stand.

Clause 35 was carried.

Part VI,

being comprised entirely of clause 36, was carried.

On Part VII,

being clauses 37 to 43 inclusive:

clause 37 was allowed to stand; clauses 38 and 39 were carried;

clause 40 was allowed to stand; clauses 41 and 42 were carried, and clause 43 was allowed to stand.

The Committee then proceeded with a detailed study of the clauses allowed to stand and the Proposed Technical Amendments. (see Appendix "A").

On Clause 2:

After discussion, subclauses (13), (21) and (24) were carried.

On subclause (19):

Mr. Hunter moved:

That subclause (19) of Clause 2 be amended by deleting the words "one-family dwellings" in the third line thereof and inserting therefor

the word *houses*; and by deleting the words "one-family" in the fourth line thereof and inserting therefor the word *houses*.

After discussion, and the question having been put, the said amendment was adopted.

On subclause (23), the Chairman tabled a letter received by him from the President of The Co-operative Union of Canada, setting forth a suggested amendment to this subclause. The said letter was ordered to be printed as an appendix to this day's evidence and is to be found as *Appendix "B"*.

After discussion, the said subclause (23) was allowed to stand.

On subclause (28),

Mr. Fraser (*St. John's East*) moved:

That subclause (28) of clause 2 be amended by deleting the word "house" in the first line thereof and inserting therefor the word *building*; and by deleting the word "two" in the second line thereof and inserting the word *three*.

After discussion, and the question having been put, the said amendment was adopted.

On clause 3:

Mr. Balcom moved:

That paragraph (a) of clause 3 be amended by deleting the word "insurable" in the first line thereof and inserting therefor the word *approved*.

The said amendment was adopted.

After discussion, and the question having been put, clause 3, as amended, was adopted.

On clause 4:

Mr. Hanna moved:

That subclause (1) of clause 4 be amended by inserting the words "to be" immediately before the word *made* in the third line thereof.

After discussion, and the question having been put, the said amendment was adopted.

Subclauses (2) and (3) of said clause were allowed to stand.

On Part I,

being clauses 6 to 13 inclusive:

On clause 6,

subclauses (1) to (5) were allowed to stand.

Mr. Tucker moved:

That Clause 6 be amended by striking out subclause (5) and substituting therefor the following:

(5) Notwithstanding section 7,

(a) where the Corporation is satisfied that an approved loan cannot be fully advanced in accordance with this Act, and instalments of the loan approved by the Corporation have been made, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of the aggregate of all instalments approved by the Corporation in respect of which the insurance fee has been paid;

(b) where the borrower refuses to accept the unadvanced portion of an approved loan, the Corporation may at the request of the lender issue to the lender an insurance policy in respect of that part of the loan that has been advanced and on which the insurance fee has been paid; and

- (c) where a house or housing project is substantially completed and ready for occupancy but completion is delayed by reason of seasonal weather conditions, the Corporation may at the request of the approved lender and on such terms and conditions as may be prescribed by regulation issue an insurance policy for the full amount of the approved loan, if the insurance fee has been paid on the portion of the loan that has been advanced.

The said amendment was allowed to stand. Thereupon Mr. Tucker moved:

That clause 6 be further amended by adding thereto the following subclause:

- (9) *For the purpose of this section the insurance fee shall be calculated on the amount of the approved loan or an instalment thereof, less the insurance fee component of the approved loan or the instalment thereof.*

After discussion, and the question having been put, the said amendment was adopted.

Clause 6, as amended, was allowed to stand.

On clause 7:

Mr. Tucker moved:

That paragraph (a) of subclause (1) of clause 7 be amended by adding after the words "it was made" in the first line thereof, the words *by an approved lender*.

After discussion, and the question having been put, the said amendment was adopted.

Mr. Fraser (*St. John's East*) moved:

That subparagraph (iii) of paragraph (h) of subclause (1) of clause 7 be amended by inserting before the words "one-half" in the first line thereof, the words *the other*.

After discussion, and the question having been put, the said amendment was adopted.

Mr. Weaver moved:

That paragraph (n) of subclause (1) of clause 7 be amended by deleting the words "the Corporation" in the second line thereof, and inserting therefore the word *regulation*; and by deleting the word "additional" in the sixth line thereof and inserting therefor the word *further*.

After discussion, and the question having been put, the said amendment was adopted.

Mr. Hellyer moved:

That subclause (1) of clause 7 be further amended by adding thereto after paragraph "(p)" the following new paragraph:

- (q) *when made to assist in the alteration of an existing residential structure, to add one or more family housing units thereto, it is for a term not in excess of fifteen years;*

After discussion, and the question having been put, the said amendment was adopted.

Mr. Hunter moved:

That the said subclause (1) of clause 7 be further amended by deleting the present paragraph "(r)", relettering the present paragraph "(q)" as paragraph (r), and adding thereto the following new paragraph:

- (s) *it was advanced*

- (i) on completion of construction as determined by the Corporation or;
- (ii) in the case of a loan the instalments of which are insured, in such instalments during the course of construction of the house or housing project as have been determined by the Corporation or
- (iii) in the case of an instalment loan that is not to be insured by the Corporation until it is fully advanced in such instalments as have been determined by the approved lender;

And that the said subclause (1) of clause 7 be further amended by relettering the present paragraph "(s)" and "(t)" as (t) and (u) respectively.

After discussion, and the question having been put, the said amendments were adopted.

Mr. Bennett (*Grey North*) moved:

That subclause (2) of clause 7 be amended by inserting immediately before the word "insured" in the second line thereof the words *approved loan or an*.

After discussion, and the question having been put, the said amendment was adopted.

Clause 7 as amended was allowed to stand.

On clause 9:

Subclauses (1) to (4) inclusive were allowed to stand.

Mr. Hunter moved:

That clause 9 be amended by adding after subclause (4) the following new subclause:

(5) *For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the Corporation.*

After discussion, and the question having been put, the said amendment was adopted.

Clause 9, as amended, was allowed to stand.

On clause 11:

Subclauses (1) and (2) were allowed to stand.

Mr. Hellyer moved:

That subclause (3) of clause 11 be amended by inserting after the word "sale" in the fifth line thereof the words *except where the obligation is a loan acquired by the Corporation pursuant to subsection (1) or is a loan made pursuant to Part I under section 40.*

After discussion, and the question having been put, the said amendment was adopted.

Mr. Tucker moved:

That the said clause 11 be further amended by adding after subclause (3) the following new subclause:

(4) *Losses incurred by the Corporation in respect of a loan acquired by the Corporation pursuant to subsection (1) shall be charged to the Fund to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender and the mortgaged property acquired by the Corporation shall be an asset of the Fund.*

After discussion, and the question having been put, the said amendment was adopted.

Clause 11, as amended, was allowed to stand.

On clause 12,

Mr. Hanna moved:

That subclause (1) of clause 12 be amended by adding after paragraph (c) the following new paragraph:

(d) prescribe the circumstances in which a chattel mortgage, an assignment of rents or other security shall be taken as further security for any loans made under this Part;

And that the said subclause (1) be further amended by re-lettering the present paragraphs (d), (e) and (f) as (e), (f) and (g) respectively.

After discussion, and the question having been put, the said amendment was adopted.

Mr. Hanna moved:

That paragraph (c) of subclause (2) of clause 12 be amended by deleting the words "in connection with the making or administration of a loan" in the second and third lines thereof and inserting therefor the words *for the purposes of this Part*.

Clause 12, as amended, was allowed to stand.

On Part II,

being clauses 14 to 22 inclusive:

On clause 15:

Mr. Hanna moved:

That subclause (1) of clause 15 be amended by adding after the word and number "section 14" at the end of the said subclause the following words:

and sell or purchase loans made on rental housing projects the rentals of which are guaranteed by the Corporation pursuant to section 14, together with the security taken in respect thereof.

After discussion, and the question having been put, the said amendment was adopted.

Clause 15, as amended was allowed to stand.

On Clause 17:

Mr. Fraser (*St. John's East*) moved:

That subclause (8) of clause 17 be deleted.

After discussion, and the question having been put, the said amendment was adopted.

Subclauses (1) and (2) of amended clause 17 were allowed to stand.

On Clause 18:

Subclause (1) and paragraphs (a) to (d) respectively and paragraph (f) of subclause (2) were allowed to stand.

Mr. Wood moved:

That paragraph (e) of subclause (2) of clause 18 be amended by deleting the word "may" in the second line thereof and inserting the

word *shall*. And that the said paragraph (e) be further amended by deleting the word "additional" in the third line thereof and inserting therefor the word *further*.

After discussion, and the question having been put, the said amendment was adopted.

Clause 18, as amended, was allowed to stand.

On clause 19:

Subclauses (1) to (5) inclusive of clause 19 were allowed to stand:

Mr. Wood moved:

That paragraph (a) of subclause (6) of clause 19 be amended by deleting the word "at" in the sixth line thereof and inserting therefor the word *or*. And that paragraph (b) of subclause (6) of clause 19 be amended by deleting the word "at" in the eighth line thereof and inserting therefor the word *or*.

After discussion, and the question having been put, the said amendments were adopted.

Clause 19, as amended, was allowed to stand.

On Part IV,

being clauses 24 to 30 inclusive,

On clause 27:

Mr. Tucker moved:

That sub-paragraph (ii) of paragraph (c) of clause 27 be amended by deleting the word "or" at the end of the said sub-paragraph and inserting therefor the word *and*.

After discussion, and the question having been put, the said amendment was adopted.

Clause 27, as amended, was allowed to stand.

On Part VII,

being clauses 37 to 43 inclusive,

On clause 40:

subclauses (1) and (2) of clause 40 were allowed to stand.

Mr. Weaver moved:

That subclause (3) of clause 40 be amended by adding after the word "Fund" at the end of the said subclause, the words:

to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender, and the mortgaged property acquired by the Corporation shall be an asset of the Fund.

After discussion, and the question having been put, the said amendment was adopted.

Mr. Wood moved:

That subclause (4) of clause 40 be amended by deleting the words "pursuant to an agreement made under paragraph (f) of section 3" in the second and third lines thereof.

And that the said subclause (4) be further amended by deleting the words "the said agreement" at the end of the said subsection and inserting therefor the words *agreement between the Corporation and the approved lender*.

After discussion, and the question having been put, the said amendments were adopted.

Clause 40, as amended, was allowed to stand.

On clause 43,

Subclauses (4) to (9) inclusive were allowed to stand.

Mr. McIlraith moved:

That clause 43 be amended by adding thereto the following new paragraph:

(10) *A reference to the former Act in any other Act, or regulation made thereunder, shall be construed as including a reference to this Act.*

After discussion, and the question having been put, the said amendment was adopted.

Clause 43, as amended, was allowed to stand.

Mr. Mansur then tabled a document entitled "Clause 9 of Bill 102 Containing the Proposed Amendments". The said document was ordered to be printed as an appendix to this day's evidence and is to be found as *Appendix "C"*. (Note: The said *Appendix "C"* also includes a correction to the last item on page 4 of the document entitled "Proposed Technical Amendments to Bill 102" to be found as *Appendix "A"* hereto).

At 5.30 o'clock p.m., the detailed study of the clauses of Bill 102 still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, March 2nd, 1954.

R. J. GRATRIX,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 2, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Macdonnell, McIlraith, Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Rouleau, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable Robert H. Winters, Minister of Public Works; Mr. D. B. Mansur, President, and Mr. H. Woodard, Assistant Secretary of the Central Mortgage and Housing Corporation.

The Committee resumed the detailed study of Bill 102, An Act to Promote the Construction of New Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.

On Clause 2,

subclause (23), allowed to stand at the previous meeting was called:
Mr. Winters made a statement on policy in regard to suggested amendments to Bill 102 by The Co-operative Union of Canada. (see *Appendix "B"*).

The Minister was questioned thereon.

Subclause (23) was adopted.

Clause 2, as amended, was adopted.

(NOTE: *All amendments not specifically stated herein are to be found in the Minutes of Proceedings of Monday, March 1, 1954.*)

Part IV,

being clauses 24 to 30 inclusive, was called.

Mr. Winters made a statement on policy with regard to the proclamation of this Part of the Bill and was questioned thereon.

Clause 4 was called:

Mr. Winters made a statement on the interest rate contemplated under this clause and was questioned thereon.

Clause 4, as amended, was adopted.

Mr. Mansur was recalled for examination on the detailed study of the clauses under consideration.

Clause 6 was considered and adopted, as amended.

Clause 7 was considered and adopted, as amended.

Clause 8 was considered and adopted.

On Clause 9,

Mr. Weaver moved:

That the present Clause 9 be deleted and that the following be substituted therefor:

Insurance Settlement.

9. (1) Where an approved lender holding or administering an insured loan secured by mortgage acquires title to the mortgaged property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;
- (b) approved borrowers' charges made before and after the date of commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)
 - (i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or
 - (ii) for a period of six month, whichever is the shorter period;
- (d) where the default period in respect of any amount specified in paragraph (a), (b) or (c) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount
 - (i) for the period of such excess, or
 - (ii) for a period of twelve months, whichever is the shorter period, if after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly, semi-annually or annually, the approved lender holding or administering the loan within the time prescribed by regulation notified the Corporation of such default and took such steps in respect of such account as were satisfactory to the Corporation; and
- (e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation;

less two per cent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account when it was in default shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, secondly to borrowers' charges and thirdly to the principal owing on the mortgage account.

- (2) No payment shall be made under subsection (1) unless
 - (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
 - (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

(3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

(4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1) if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

(5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgage property to the Corporation.

After discussion, and the question having been put, the said new clause 9 was adopted.

Clause 10 was allowed to stand.

Clause 11 was considered and adopted, as amended.

Clause 12 was called.

At 1.00 o'clock p.m., the discussion on Clause 12 still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hees, Hellyer, Henderson, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, McIlraith, Noseworthy, Philpott, Pouliot, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver, and Wood.

In attendance: Same as at the morning sitting.

Clause 10, allowed to stand at the morning sitting, was considered.

Mr. Cardin moved that Clause 10 be amended by inserting after subclause (3) new subclause (4) as follows:

(4) Insurance fees paid into the Fund, property acquired as assets of the Fund and the return on investments and assets of the Fund shall not be taxable income of the Corporation.

And that the said Clause be further amended by renumbering subclauses (4) and (5) as (5) and (6) respectively.

After discussion, and the question having been put, the said amendment was adopted.

Clause 10, as amended, was considered and adopted.

The Committee then resumed consideration of Clause 12.

Mr. Mansur made a statement on paragraph (d) of subclause (1), being an amendment adopted at a previous sitting of the Committee, to the effect that it was felt advisable to broaden the said paragraph and laid before the Committee a suggested new paragraph (d) as follows:

- (d) authorize the taking of a chattel mortgage, an assignment of rents or other security as further security for loans made under this Part and Part II, and prescribe the circumstances in which such further security shall be taken.

After discussion, it was agreed that paragraph (d) be deleted and the suggested new paragraph (d) be substituted therefor.

Clause 12 was considered and adopted, as amended.

Clause 13 was considered and adopted.

Clause 15 was considered and adopted, as amended.

Clause 16 was considered and adopted.

On Clause 17 Mr. Hees moved,

That subclause (1) of Clause 17 be amended by deleting the word "or" before the word "fishing" in the third line thereof, and by inserting after the word "fishing" in the same line thereof, the words *or other*.

And that subclause (2) of Clause 17 be amended by deleting the word "or" before the word "fishing" in the third line thereof, and by inserting after the word "fishing" in the same line thereof, the words *or other*.

After discussion, and, with the consent of the Committee, the said amendment was withdrawn.

Clause 17 was considered and adopted, as amended.

Clause 18 was considered and adopted, as amended.

Clause 19 was considered and adopted, as amended.

Clause 20 was considered and adopted.

Clause 21 was considered and adopted.

On Part III, being comprised entirely of Clause 23:

Mr. Hunter moved,

That subclause (1) of Clause 23 be amended by deleting the words *slum areas* or in the second line thereof, and that subclause (5) of the said Clause be amended by deleting the word *slum* in the second line thereof.

Charles Henry, Esquire, M.P., not being a member of the committee, and by leave of the Committee, made a statement in respect of the word "slum".

After discussion, and the question having been put, the said amendment was adopted.

Clause 23 was considered and adopted, as amended.

Clause 24 was considered and adopted.

Clause 26 was considered and adopted.

Clause 27 was considered and adopted, as amended.

Clause 30 was considered and adopted.

On Clause 33, Mr. Hellyer moved,

That Paragraph (d) of subclause (1) be amended by deleting the word "his" in the second line thereof and inserting therefor the word *its*.

The question having been put, the said amendment was adopted.

Clause 33 was considered and adopted, as amended.

Clause 34 was considered and adopted.

Clause 37 was considered and adopted.

Clause 40 was considered and adopted, as amended.

Clause 43 was considered and adopted, as amended.

By consent, the Committee reverted to paragraph (d) of subclause (1) of Clause 9.

After some discussion as to the clarity of the said paragraph, Mr. Woodard was called and made a statement in explanation thereof.

The Title was considered and adopted.

The Bill, as amended, was considered and adopted, and the Chairman ordered to report the said Bill to the House, as amended.

Ordered,—That Bill 102 be reprinted as amended.

At 5.15 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MARCH 1, 1954

3.30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. I suggest that this procedure might meet with your approval. We will dispose of the noncontentious clauses first, and technical amendments. Any section to which there is any objection will stand at the request of the member. Important amendments are to be introduced on notice, they will not be dealt with at that meeting unless we have unanimous consent.

Mr. FLEMING: The question might arise as to what is an important amendment as distinguished from some other amendment.

The CHAIRMAN: Until we have reached that, let us assume that the chairman will try and guide the committee on the importance of the amendment.

Mr. FLEMING: Wouldn't it be better to let the matter stand now as a request on your part that if members have important or contentious amendments they would like to bring forward they should put them in the hands of yourself or the clerk as soon as possible, so that they could be brought to the notice of members. I think it would be as well to avoid a hard and fast rule.

The CHAIRMAN: There will be no hard and fast rule.

Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation, called:

The CHAIRMAN: Gentlemen, Central Mortgage and Housing Corporation have some technical amendments. These will all stand today, so you will have an opportunity to examine them. At a later time we will deal with them.

(See Appendix "A")

Hon. Mr. WINTERS: The amendments to which the chairman referred are technical amendments which have been gone over with me by the Central Mortgage and Housing Corporation officials.

Mr. FLEMING: And I presume carry the minister's approval and sponsorship?

Hon. Mr. WINTERS: That is correct.

Mr. FLEMING: Mr. Chairman, just before you leave this general topic, there were several amendments suggested from one or two other sources in the course of our discussions; namely the Dominion Mortgage and Investments Association and then the co-operatives.

The CHAIRMAN: I have the co-operatives' amendments. Dominion Mortgage and Investments Association's amendments, I understand, have all been given consideration, and those thought suitable are incorporated in these amendments sponsored by Central Mortgage and Housing Corporation.

Mr. FLEMING: Are there any other amendments from any other source?

The CHAIRMAN: Mr. Hunter has indicated that he will have an amendment when we come to the word "slum". That is all I know of.

Clause No. 1, "Short title". Shall the clause carry?

Carried.

Clause 2: subclause (1), "Approved instalment credit agency".
Carried.

Subclause (2), "Approved lender".
Carried.

Subclause (3), "Approved loan".
Carried.

Subclause (4), "Bank".
Carried.

Subclause (5), "Borrowers' charges".
Carried.

Subclause (6), "Builder".
Carried.

Subclause (7), "Co-operative housing project".
Carried.

Subclause (8), "Corporation".
Carried.

Subclause (9), "Cost of construction".
Carried.

Subclause (10), "Cost of construction of a family housing unit".
Carried.

Subclause (11), "Cost of conversion".
Carried.

Subclause (12), "Family housing unit".
Carried.

Subclause (13), "Family of low income":

(13) "family of low income" means a family that receives a total family income that, in the opinion of the Corporation, is insufficient to permit it to rent housing accommodation adequate for its needs at the current rental market in the area in which the family lives;

Stands.

Subclause (14), "Farm":

(14) "farm" means land used from any tillage of the soil, including live stock raising, dairying, and fruit growing;

Mr. FLEMING: I have a question on subclause (14). I don't know whether you wish to deal with the question. It is not an extended matter. Do you wish to deal with it?

Hon. Mr. WINTERS: Go ahead.

By Mr. Fleming:

Q. Subclause (14), Mr. Chairman, now defines "farm" as meaning "land used for any tillage of the soil, including live stock raising, dairying, and fruit growing". There is no specification there as to the extent of the area that is to be involved. Does anything turn on that question?—A. In considering the farm, we looked to the farm being of sufficient size to provide an important part of the occupant's income. That, you will realize, Mr. Fleming, has flexibility within itself. If he is growing grapes, that is one thing, and if he is growing hay, that is another thing. But the point that you raise, I presume, revolves around property being called a farm when the acreage is so small that it could not possibly produce enough to provide the major source of income for the individual.

Q. I have four fruit trees in my garden, for instance.—A. I don't think we could consider it a farm. The definition has been very flexible.

Q. There is a change in this definition. The present Act defines "farm" as meaning land used for the purpose of farming. Now, the interpretation that Mr. Mansur has suggested, I have no doubt is a reasonable interpretation, but on what is it based? Has there been any regulation at any time on this, or is it just a matter of someone in the corporation dealing with such questions as they arise and disposing of them in some way on their individual merits without laying down any firm definition?—A. The latter, Mr. Fleming, because the volume of applications from farms has been relatively small, with some 19 loans in all approved, so the difficulty which you suggest has never really arisen.

Mr. QUELCH: Do you include such things as fur farms and fox farms?

THE WITNESS: Yes.

THE CHAIRMAN: Shall the subclause carry?

Carried.

Mr. FLEMING: When I spoke about subclause (13) standing, I did not mean I intended to offer an amendment.

THE CHAIRMAN: No, just stand for discussion at a later time.

Subclause (15), "Guaranteed home extension loan".

Carried.

Subclause (16), "Home extension loan".

Carried.

Subclause (17), "Home improvement loan".

Carried.

Subclause (18), "House".

Carried.

Subclause (19), "Housing project":

(19) "housing project" means a project, together with the land upon which it is situated, consisting of one or more one-family dwellings, or one or more multiple-family dwellings or a combination of one-family and multiple-family dwellings, together with any public space, recreational facilities, commercial space and other buildings appropriate to the project;

THE WITNESS: There is a technical amendment.

THE CHAIRMAN: A copy of which you have before you. It will stand for the present.

Subclause (20), "Insured loan".

Carried.

Subclause (21), "Lender":

(21) "lender" means a loan, insurance, trust or other company or corporation, trustee of trust funds, building society, credit union or other co-operative credit society authorized to lend money on the security of real or immovable property and a bank;

Mr. FLEMING: I have a question on subclause (21).

THE CHAIRMAN: Stands.

Subclause (22), "Lending value".

Carried.

Subclause (23), "Limited-dividend housing company":

(23) "limited-dividend housing company" means a company incorporated to construct, hold and manage a low-rental housing project, the dividends payable by which are limited by the terms of its charter or instrument of incorporation to five per cent per annum or less;

There is an amendment. We will pass that.

Mr. FLEMING: What is the amendment?

THE CHAIRMAN: There will be an amendment. Copies will be distributed.

Subclause (23) stands.

Subclause (24), "Low-rental housing project":

(24) "low-rental housing project" means a housing project undertaken to provide decent, safe and sanitary housing accommodation complying with standards approved by the Corporation, to be leased to families of low income or to such other persons as the Corporation, under agreement with the owner, designates, having regard to the existence of a condition of shortage, over-crowding or congestion of housing;

Mr. FLEMING: Stands.

The CHAIRMAN: Subclause (25), "Metropolitan area".

Carried.

Subclause (26), "Minister".

Carried.

Subclause (27), "Mortgage".

Carried.

Subclause (28), "Multiple-family dwelling":

(28) "multiple-family dwelling" means a house containing two or more family housing units;

The WITNESS: A technical amendment.

The CHAIRMAN: Stand.

Subclause (29), "Municipality".

Carried.

Subclause (30), "Official community plan".

Carried.

Subclause (31), "One-family dwelling".

Carried.

Subclause (32), "Owner".

Carried.

Subclause (33), "Rent reduction fund".

Carried.

Subclause (34), "Rental housing project".

Carried.

Subclause (35), "Semi-detached dwelling".

Carried.

Subclause (36), "Title":

(36) "title" in relation to a loan secured by a mortgage on a long-term lease means the entire interest of the lessee.

By Mr. Fleming:

Q. I have a question, Mr. Chairman. This defines "title" in relation to a loan secured by a mortgage on a long-term lease. Now, to what extent are loans being approved, or is it the intention to approve loans, on leasehold, even long-term leasehold?—A. Mr. Chairman, all the land in the national park areas is subject to leasehold and it is not possible for an individual to get freehold to a lot in the national park areas. In certain of the mining areas, leasehold is only possible. It is really the mining areas and the national park areas where this equivalent to title in the form of long-term lease is actually being used.

Q. Is it the intention so to confine it in the future, because this might raise broad questions. For instance, the chairman and I have in mind the fact that on Centre Island, Toronto, there are long-term leases and no outright ownership of land. Is there any intention of approving loans on such properties?—A. Mr. Fleming, the long-term leases that we have approved have had a term twice as long as the amortization of the loan. That has been the rough working formula that we have followed. But I would want to look fairly carefully at a 20 year loan on land that was leased for 20 years. I do not think a loan would be appropriate. But as you get up, let us say, to 30, 35 and 40 years, then I think you get into an area where the complete interest in the leasehold is virtually the equivalent of the fee simple.

Q. For your purposes?—A. For our purposes.

Q. It would be regarded as complete if the building is owned outright by the lessee?—A. That is correct.

Q. It would have to be one of those situation where the lessee owns the building outright?—A. In every case, yes.

Q. On what basis is this approach used? Is it a matter of regulation or is it again a case of dealing with individual applications as they are received and measuring the extent of the leasehold security in each case as a substitute for freehold?—A. It is a sensible approach to the individual application.

Q. That is the general procedure?—A. Only that we look at a lease which is twice as long as the term of amortization as being in an area that is satisfactory to us.

Q. And that is the general rule then?—A. Yes.

Q. The leasehold is to run at least twice the length of the loan?—A. We feel in that case there should be no question. On the other hand, I would think that if it did arise on Toronto Island that we were offered a 30 year lease, with a renewal term that seemed reasonable, as we have in the national parks, I think we would be justified in looking at it favourably. On the other hand, if we had a leasehold of 25 years with no promise whatsoever of a reasonable renewal by the owner of the house, then I think it would be most inappropriate to be willing to proceed by way of first mortgage.

The CHAIRMAN: Does subclause 36 carry?

Carried.

Clause 3(a):

3. Notwithstanding any restrictions on its power to lend or invest money contained in any other statute or law, any approved lender subject to the jurisdiction of Parliament may

(a) in accordance with this Act make insurable loans on the security of a first mortgage in favour of the lender;

Stands.

Subclauses 3(b), (c), (d), (e) and (f)?

Carried.

Clause 4.

INTEREST

G. in C. may prescribe interest.

4. (1) Subject to subsection (2), the Governor in Council may by regulation prescribe the maximum rate of interest payable by a borrower in respect of a loan made under this Act.

Maximum interest.

(2) The rate of interest prescribed under subsection (1) shall not exceed the interest rate on long term Government bonds

- (a) by more than two and one-quarter per cent in respect of loans made under Part I;
- (b) by more than two and one-quarter per cent in respect of loans made under section 15;
- (c) by more than one-half of one per cent in respect of loans made under section 16; and
- (d) by more than one and one-half per cent in respect of loans made under section 17.

"Interest rate on long term Government bonds" defined.

(3) In this section "interest rate on long term Government bonds" means the rate of interest return that would be yielded in the market by Government of Canada bonds that, at the time the maximum rate of interest is prescribed under subsection (1), would mature in twenty years, such return to be determined by the Governor in Council on the basis of the yields of the most comparable issues of Government of Canada bonds outstanding in the market.

Mr. FLEMING: Why not let the whole of clause 4 stand?

The CHAIRMAN: Stands.

Clause 5.

Carried.

Clause 6?

Mr. FLEMING: You are coming to Part I and I suggest that all of Part I stand.

PART I.

INSURED MORTGAGE LOANS

Insurance of Loans.

Insurance of loans.

6. (1) The Corporation may issue an insurance policy in respect of a loan that is insurable under the provisions of this Act.

Advance undertaking.

(2) The Corporation may prior to the issue of an insurance policy in respect of a loan give an approved lender an undertaking that it will issue the insurance policy if the loan is fully advanced in accordance with this Act. Instalment loans.

(3) Where an approved loan is to be made by instalments and the lender has requested that the instalments be insured under this Act, the aggregate of the instalments approved by the Corporation shall, if the insurance fee in respect thereof has been paid, be deemed to be an insured loan.

Issue of policy.

(4) Where an approved loan is fully advanced by an approved lender in accordance with this Act and the insurance fee in respect thereof has been paid, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of the loan.

Where loan not fully advanced.

(5) Where the Corporation is satisfied that an approved loan cannot be fully advanced in accordance with this Act, and instalments of the loan approved by the Corporation have been made, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of the aggregate of all instalments approved by the Corporation in respect of which the insurance fee has been paid.

Insurance fee.

(6) There shall be charged to the borrower at the time of the making of an approved loan or an instalment thereof an insurance fee, which shall be collected by the approved lender and, subject to subsection (7), remitted to the Corporation, as follows:

- (a) in respect of a loan to a home owner or to a builder who intends to sell the house to a home purchaser or to the person who owns the farm or to a co-operative housing association,
 - (i) if the loan is an instalment loan, a fee of two per cent of the amount of each instalment, and
 - (ii) if the loan is not an instalment loan, a fee of one and three-quarters per cent of the amount of the loan; and
- (b) in respect of a loan to assist in the construction of a rental housing project or in the alteration of an existing residential structure to add one or more family housing units thereto,
 - (i) if the loan is an instalment loan, a fee of two and one-half per cent of the amount of each instalment, and
 - (ii) if the loan is not an instalment loan, a fee of two and one quarter per cent of the amount of the loan.

(7) In the case of an instalment loan that is not insured by the Corporation until it is fully advanced, the approved lender shall remit to the Corporation one and three-quarters per cent of the amount of the loan if it is a loan mentioned in paragraph (a) of subsection (6), and two and one-quarter per cent of the amount of the loan if it is a loan mentioned in paragraph (b) of subsection (6).

Sale of loan.

(8) An insurance policy issued under this Act in respect of a loan ceases to be in force if the loan is sold to a person other than an approved lender unless the loan continues to be administered by an approved lender in accordance with the regulations.

Insurable loans.

7. (1) Subject to section 8, a loan is insurable if

(a) it was made

- (i) for the purpose of assisting in the construction of a house, co-operative housing project or rental housing project, or

(ii) for the alteration of an existing residential structure to add one or more family housing units thereto, according to sound standards of construction approved by the Corporation;

(b) it was made to

- (i) the person (in this Act called the "home owner") who owns the house and intends to occupy it or one of the family housing units thereof,
- (ii) a builder who intends to sell the house to a person (in this Act called the "home purchaser") who will own and occupy the house or one of the family housing units thereof,
- (iii) the person who owns the farm upon which the house has been built,
- (iv) the co-operative housing association that owns the co-operative housing project, or
- (v) the person who owns the rental housing project;

(c) when made to a home owner who is a person engaged in the production of defence supplies as defined in the *Defence Production Act* (in this section called a "defence worker"), or to a builder who intends to sell the house to a home purchaser who is a defence worker, it was for the aggregate of

- (i) 90 per cent of the lending value, and
- (ii) the amount of the insurance fee paid in respect of the loan;

(d) when made to a home owner or builder who intends to sell the house to a home purchaser, it was for the aggregate of

- (i) 90 per cent of the first \$8,000 of the lending value or any part thereof,
- (ii) 70 per cent of the amount by which the lending value exceeds \$8,000, and
- (iii) the amount of the insurance fee paid in respect of the loan;

(e) when made in respect of a house containing two family housing units to a home owner or to a builder for sale to a home purchaser, it was for the aggregate of

- (i) 90 per cent of the first \$8,000 of one-half of the lending value or any part thereof,
- (ii) 70 per cent of the amount by which one-half of the lending value exceeds \$8,000,
- (iii) 80 per cent of the other one-half of the lending value,
- (iv) the amount of the insurance fee paid in respect of the loan;

(f) when made in respect of a house containing two family housing units to a home owner who is a defence worker or to a builder for sale to a home purchaser who is a defence worker, it was for the aggregate of

- (i) 90 per cent of the first one-half of the lending value,
- (ii) 80 per cent of the other one-half of the lending value, and
- (iii) the amount of the insurance fee paid in respect of the loan;

(g) when made to a co-operative housing association in respect of houses, it was for the aggregate of

- (i) 90 per cent of the first \$8,000 of the lending value of each house or any part thereof,
- (ii) 70 per cent of the amount by which the lending value of each house exceeds \$8,000,
- (iii) the amount of the insurance fee paid in respect of the loan;

- (h) when made to a co-operative housing association in respect of houses that contain two family housing units, it was for the aggregate of
 - (i) 90 per cent of the first \$8,000 of one-half of the lending value of each house or any part thereof,
 - (ii) 70 per cent of the amount by which one-half the lending value of each house exceeds \$8,000,
 - (iii) 80 per cent of one-half of the lending value of each house, and
 - (iv) the amount of the insurance fee paid in respect of the loan;
- (i) when made to a co-operative housing association in respect of multiple family dwellings, it was for the aggregate of
 - (i) 80 per cent of the lending value of the multiple family dwellings, and
 - (ii) the amount of the insurance fee paid in respect of the loan;
- (j) when made to assist in the construction of a rental housing project, it did not exceed the aggregate of
 - (i) 80 per cent of the lending value of the project, and
 - (ii) the amount of the insurance fee paid in respect of the loan, and was not less than the lesser of the maximum loan permitted by regulations or 70 per cent of the lending value of the rental housing project;
- (k) when made to assist in the alteration of an existing residential structure to add one or more family housing units thereto, it did not exceed the aggregate of
 - (i) the lesser of 70 per cent of the lending value of the structure and land upon which it is situated when the alteration is completed, or the amount of the cost of the alterations and the amount necessary to discharge all encumbrances on the title to the land, and
 - (ii) the amount of the insurance fee paid in respect of the loan;
- (l) when made to assist in the construction of a house on a farm, it did not exceed the aggregate of
 - (i) the lesser of \$10,000 or two-thirds of the appraised value of the farm, determined by appraising the value of the land, exclusive of buildings, and adding thereto the appraised increase in value of such land attributable to existing buildings and the construction of the house, and
 - (ii) the amount of the insurance fee paid in respect of the loan;
- (m) it bears interest at a rate agreed upon between the borrower and the lender not in excess of the rate prescribed by the Governor in Council under section 4;
- (n) it is secured by a first mortgage in a form prescribed by the Corporation on the house or housing project in favour of the approved lender, except where the loan is made to a lessee of land, in which case the loan is secured by a first mortgage or an assignment of the leasehold interest of the lessee, and such additional security, assignments, assurances and agreements as have been required by the Corporation;
- (o) when made to a home owner or to a builder who intends to sell the house to a home purchaser or to a person who owns the farm upon which the house has been built, or to a co-operative housing association, it is

- (i) for a term of at least twenty-five years but not more than thirty years, or
- (ii) for a term less than twenty-five years if the borrower so requested in writing or if permitted by the regulations;
- (p) when made to assist in the construction of a rental housing project, it is for a term not in excess of twenty-five years;
- (q) it was made on such terms as to payment of principal, interest and taxes by monthly instalments or otherwise as may be determined by regulation;
- (r) it was advanced to the borrower on completion of construction as determined by the Corporation, or in such instalments during the course of construction of the house or housing project as have been determined by the Corporation;
- (s) it was made on such other terms and conditions as were agreed upon between the approved lender and the Corporation; and
- (t) it was made on such terms and in accordance with such conditions in addition to those specified in the preceding paragraphs as may be prescribed by regulation.

Addition of borrowers' charges.

(2) With the approval of the Corporation, borrower's charges may be added to the principal of an insured loan.

Lesser loans.

(3) Notwithstanding anything in this section, a loan mentioned in paragraph (c), (d), (e), (f), (g), (h), or (i) of subsection (1) may be for an amount less than the amount specified therein but not less than the lesser of

- (a) 70 per cent of the lending value of the house or housing project, or
- (b) the maximum loan permitted by regulation,

if a loan for such lesser amount is requested in writing by the borrower or is made in such other circumstances as may be prescribed by regulation.

Conditions of insurance.

- 8. (1) A loan to a co-operative housing association is not insurable unless
 - (a) the instrument of incorporation of the co-operative housing association and its by-laws are approved by the Corporation;
 - (b) the Corporation is satisfied that
 - (i) in the case of a project that will continue to be owned and managed by the co-operative association after completion of construction, at least eighty per cent of the family housing units of the project will be occupied by members or shareholders of the co-operative association; or
 - (ii) in the case of a project consisting of houses that on completion of construction are to be conveyed to members or shareholders of the association, at least eighty per cent of the members or shareholders will each own a house; and
 - (c) in the first instance, repayment of the loan is secured by a first mortgage on all the family housing units in the project.

Co-operative housing project.

(2) When the construction of a co-operative housing project consisting of houses has reached a stage satisfactory to the Corporation and the co-operative association conveys a house in the project to a member or share-

holder of the association, the first mortgage or other security may be discharged in respect of the house and a new mortgage or other security taken in favour of the approved lender from the member or shareholder in an amount equal to the portion of the loan made in respect of the house in the first instance, and such amount shall be deemed to be a loan to a home owner and is insurable.

Insurance Settlement

Payment by Corporation upon conveyance of property.

9. (1) Where an approved lender holding or administering an insured loan secured by mortgage acquires title to the mortgaged property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;
- (b) approved borrowers' charges made before and after the date of commencement of foreclosure proceedings or the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)
 - (i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or
 - (ii) for a period of six months,whichever is the shorter period;
- (d) where the default period in respect of any amount specified in paragraph (a) or (b) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount and on the amount specified in paragraph (c)
 - (i) for the period of such excess, or
 - (ii) for a period of twelve months,whichever is the shorter period, if immediately after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly, semi-annually or annually, the approved lender holding or administering the loan satisfied the Corporation that adequate steps were being taken in respect of the said account; and
- (e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation;

less two per cent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account during the default period shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, and secondly to the amount owing on the mortgage account as principal, including borrowers' charges.

Condition to payment.

- (2) No payment shall be made under subsection (1) unless
 - (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
 - (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

Transfer of security.

(3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

Payment without conveyance in special cases.

(4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure of other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1), if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

*Mortgage Insurance Reserve Fund.**Mortgage Insurance Reserve Fund.*

10. (1) The Corporation shall establish a fund to be known as the "Mortgage Insurance Reserve Fund", in this Act called the "Fund", to which shall be credited all insurance fees received by the Corporation under this Act.

Assets of the Fund.

(2) Property acquired by the Corporation under section 9, and investments made out of the Fund under subsection (3) of this section shall be assets of the Fund.

Investments out of Fund.

(3) The Corporation may invest any part of the Fund in obligations of or guaranteed by Canada.

Payments out of Fund.

(4) All payments required to be made by the Corporation under section 9 shall be made out of the Fund.

Advances out of C.R.F.

(5) At the request of the Corporation the Minister may, out of the Consolidated Revenue Fund, advance to the Corporation upon terms and conditions approved by the Governor in Council, such amounts as the Minister considers necessary to enable the Corporation to discharge its obligations under section 9.

*Corporation Investments.**Investments by Corporation.*

11. (1) The Corporation may out of its capital, out of the reserve fund established under section 30 of the *Central Mortgage and Housing Corporation Act*, or out of moneys appropriated by section 22 for the purpose

- (a) purchase all right or interest of the holder of an insured loan and take an assignment of the mortgage and other security taken in respect thereof; and
- (b) make loans to an approved lender on such terms and conditions, including the rate of interest, as the Corporation may determine upon the security of an assignment of or an agreement to assign insured loans held by the approved lender.

Sale of obligations.

(2) The Corporation may sell to an approved lender any obligation to the Corporation that is secured by a first mortgage and assign the security held by the Corporation in respect thereof.

Insurance of obligations sold.

(3) When the Corporation has sold an obligation pursuant to subsection (2) it may issue an insurance policy in respect thereof to the purchaser and such obligation shall be deemed to be an insured loan and the Corporation shall, at the time of the sale, credit the Fund with one and three-quarters per cent of the amount of the obligation at the time of sale if it is in respect of a house, and two and one-quarter per cent thereof if it is in respect of a rental housing project.

*Regulations.**Regulations by Governor in Council.*

12. (1) The Governor in Council may by regulation
- (a) determine the maximum loan that may be made in respect of a house or housing project;
 - (b) determine the minimum period of amortization of an insured loan;
 - (c) subject to sections 4 and 6, determine the maximum charges that may be made by an approved lender or holder of an insured loan in respect of the making and administration thereof;
 - (d) prescribe the form of the insurance policy that may be issued in respect of an insured loan and of the mortgage that shall be taken in respect thereof;
 - (e) prescribe such other forms as may be required in connection with the making or administration of an insured loan; and
 - (f) make provision for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this Part.

By Corporation.

- (2) The Corporation may
- (a) prescribe sound standards of construction;
 - (b) prescribe the procedures to be followed in authorizing advances by an approved lender to a borrower; and
 - (c) prescribe such forms as may be required in connection with the making or administration of a loan and have not been provided for by regulation pursuant to subsection (1).

*Maximum Insurance.**Aggregate Maximum of \$2,000,000,000*

13. Notwithstanding anything in this Act, the aggregate amount of all loans in respect of which insurance policies have been issued under this Act shall not exceed two billion dollars.

Stands.

Mr. FLEMING: That takes us over, I think, to Part II.

The CHAIRMAN: Page 14.

Mr. FLEMING: Yes.

The CHAIRMAN: Everything up to clause 14 stands; 6, 7, 8, 9, 10, 11, 12, and 13.

Stands.

Clause 14 on page 14.

Carried.

Have you any amendments to clause 6?

The WITNESS: Yes.

The CHAIRMAN: We are reverting to page 6 for a minute.

The WITNESS: Subclause 5?

The CHAIRMAN: Subclause 5 will be amended.

The WITNESS: And subclause 9 on page 7.

The CHAIRMAN: Subclause 9 on page 7. There is no subclause 9 on page 7.

Mr. FLEMING: This would add a new subclause 9, Mr. Chairman.

The CHAIRMAN: After subclause 8 there will be a new subclause 9 added.

The WITNESS: Clause 7 subclause (1).

The CHAIRMAN: Where?

The WITNESS: Line 16.

The CHAIRMAN: A-(i); there is to be an amendment, have you got it?

The WITNESS: Page 8, line 39.

The CHAIRMAN: There is something to be added.

The WITNESS: A change.

The CHAIRMAN: An amendment.

The WITNESS: Page 9, line 32.

The CHAIRMAN: Again there will be an amendment.

The WITNESS: Again in 36.

The CHAIRMAN: 36.

The WITNESS: On page 9 insert a new paragraphe (q) after paragraph (p).

The CHAIRMAN: Yes.

The WITNESS: On page 10 in line 1 we are re-lettering 9. There is a re-lettering to take place there.

The CHAIRMAN: Yes.

The WITNESS: And on page 10, subclause (2).

The CHAIRMAN: Yes.

The WITNESS: There will be a minor amendment to that; and then clause 9 subclause (1).

The CHAIRMAN: On page 11?

The WITNESS: Yes.

The CHAIRMAN: There will be an amendment.

The WITNESS: And on page 12 an amendment by the addition of sub-clause (5).

The CHAIRMAN: Yes.

The WITNESS: And clause 11, subclause (3) will be amended, and a sub-clause 4 is to be added. And in clause 12 subclause (1), there will be a new paragraph (d).

The CHAIRMAN: A new paragraph (d).

The WITNESS: And paragraph (d) in subclause (1) is to be re-lettered.

The CHAIRMAN: All right.

The WITNESS: And clause 12 subclause (2) on page 14 will be amended. That is all in Part I.

The CHAIRMAN: You have copies, gentlemen, we will consider them later. Now, Part II, "Housing for Rental Purposes and Land Assembly."

Clause 14, subclause (1)?

Carried.

Subclause (2)?

Carried.

Subclause (3)?

Carried.

Subclause (4)?

Carried.

Subclause (5)?

Carried.

Subclause (6)?

Carried.

Subclause (7)?

Carried.

Clause 15, subclause (1)?

Loans for rental housing projects.

15. (1) Notwithstanding any restrictions on its power to lend or invest money contained in any other statute or law, any approved lender subject to the jurisdiction of Parliament, may lend on the security of a first mortgage in favour of the approved lender an amount not exceeding eighty-five per cent of the estimated cost as determined by the Corporation of a rental housing project, the rentals of which are guaranteed by the Corporation pursuant to section 14 or in respect of which an undertaking has been given under subsection (2) of section 14.

The WITNESS: There will be an amendment.

The CHAIRMAN: There will be an amendment. So it will stand.

Mr. FLEMING: We might as well let all of clause 15 stand.

Form of mortgage.

(2) The mortgage referred to in subsection (1) shall be in such form as the Corporation may approve and shall

(a) bear interest at a rate not in excess of a rate prescribed by the Governor in Council,

- (b) be for a term not in excess of twenty years, and
- (c) provide for repayment in each year during the term of the mortgage of two and one-half per cent of the principal amounts advanced under the mortgage and the balance of the principal at the end of the term.

There is only one other clause.

The CHAIRMAN: Very well.

Clause 15.

Stands.

Clause 16, subclauses (1), (2), and (3)?

Carried.

Subclause 4: "Terms of contract":

(4) A contract with a limited-dividend housing company entered into under this section shall provide that

- (a) the maximum ratio between the rentals to be charged and the probable family income of the lessees of each family housing unit shall be such ratio as the Corporation may deem fair and reasonable or shall make such other provisions for maintaining the low-rental character of the project as the Corporation may agree to;
- (b) the company may receive contributions to a rent reduction fund from any province, municipality, social agency, trust, or person and shall use such funds solely for the purpose of reducing the rentals that otherwise would be charged;
- (c) the company shall maintain books, records and accounts in a form satisfactory to the Corporation, shall permit the inspection of such books, records and accounts by a representative of the Corporation at any time and shall make such annual or other reports to the Corporation in such form and containing such particulars as the Corporation may require;
- (d) the company shall furnish efficient management of the low-rental housing project, maintain the project in a satisfactory state of repair, and permit representatives of the Corporation to inspect the project at any time;
- (e) the company shall make to the Corporation promptly on the due dates the payments required to be made in order to pay the interest on and amortize the loan during the term thereof;
- (f) the amount of surplus earnings to be used or set aside for reserves, maintenance, repairs, possible decline in rentals or other contingencies shall be limited in such manner as may be agreed upon; and at the end of the term of the loan the amount of such surplus earnings so set aside and at that time unexpended shall be paid to such person or expended in such manner as is provided in the contract or as the Corporation may direct;
- (g) except with the consent of the Corporation and on such terms and conditions as the Corporation may approve the project or any part thereof shall not be sold or otherwise disposed of during the term of the loan; and
- (h) the Corporation shall have the right, in the event of the company failing to maintain the low-rental character of the project or otherwise committing a breach of the contract, to declare the unpaid

principal of the loan due and payable forthwith or to increase the interest payable thereafter on the unpaid balance of the said loan to such rate as the Governor in Council may determine.

Shall the subclause carry?

Mr. FLEMING: Stand.

The CHAIRMAN: Subclause 4 stands.

Subclause 5 (a), (b) and (c).

Carried.

Clause 17:

Loans to borrowers engaged in mining, lumbering, logging or fishing.

17. (1) The Corporation may with the approval of the Governor in Council, make a loan to a borrower engaged in the mining, lumbering, logging or fishing industry, to assist in the construction of low or moderate-cost housing projects in areas or localities that are adjacent to or connected with the operations of the borrower.

Mr. HEES: I would like to make an amendment to that.

The CHAIRMAN: Clause 17, subclause 1?

Stands.

Subclause 2: "Borrower defined":

(2) For the purpose of this section the expression "borrower" means an incorporated company engaged in the mining, lumbering, logging or fishing industry, and includes a company (in this section referred to as a "subsidiary company") incorporated for the purpose of owning, constructing and managing a housing project all the share capital of which, except directors' qualifying shares, is owned by an incorporated company (in this section referred to as the "parent company") engaged in the mining, lumbering, logging or fishing industry.

Stands.

Subclause 3.

Carried.

Subclause 4.

Carried.

Subclause 5 (a), (b) and (c).

Carried.

Subclause 6 (a), (b), (c), (d), (e), (f), (g), (h), (i), (j).

Carried.

Subclause 7 (a), (b), (c), (d), (e), (f), (g), (h), (i), (j).

Carried.

Subclause 8, "Powers of corporation":

(8) The Corporation may

- (a) prescribe the manner in which the cost of the project shall be calculated or estimated and determine the lending value for the purpose of this section;
- (b) prescribe the standards of construction and the type of project in respect of which a loan is made under this section;
- (c) prescribe the information to be given by an applicant for a loan under this section;

- (d) prescribe the conditions and procedures under which the proceeds of any loan under this section may be advanced to the borrower;
- (e) prescribe the circumstances in which additional security may be taken for any loans under this section; and
- (f) make provision for any other matters deemed necessary or desirable to carry out the purposes or provisions of this section and to safeguard the interests of the Corporation.

Mr. MANSUR: Clause 17, subclause 8.

The CHAIRMAN: Is it an amendment?

Mr. MANSUR: The amendment is to strike out subclause 8.

The CHAIRMAN: Subclause 8.

Stands.

Clause 18:

Regulations by Governor in Council.

18. (1) The Governor in Council may by regulation make provision for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this Part.

Power of Corporation to determine administrative matters.

(2) The Corporation may prescribe

- (a) the manner in which the cost of construction of a rental housing project or a low-rental housing project or the cost of converting existing buildings into a low-rental housing project shall be calculated or estimated and by whom and in what manner an appraisal of any rental housing project shall be made;
- (b) sound standards of construction and the arrangements that shall be made to assure adequate supervision of any construction or conversion in respect of which a loan is made under this Part;
- (c) the information to be given by an applicant for a loan under this Part;
- (d) the conditions and procedures under which the proceeds of any loan under this Part may be advanced to a builder or a limited-dividend housing company;
- (e) the circumstances in which a chattel mortgage, an assignment of rents or other security, may be taken as additional security for any loans made under this Part; and
- (f) the books, accounts and records to be maintained by a limited dividend housing company to which a loan is made under this Part and the manner in which and by whom they shall be audited, and the form of the annual or any other report to be made to the Corporation.

Stands.

Clause 19:

Life insurance companies investment.

19. (1) Notwithstanding any restriction on its power to lend or invest money contained in any other statute or law, any life insurance company subject to the jurisdiction of Parliament may, subject to the conditions hereinafter stated, invest its funds to an aggregate amount not exceeding five per cent of its total assets in Canada allowed by the Superintendent of Insurance under section 77 of the *Canadian and British Insurance Companies Act*, in the purchase of land and the construction thereon of a low cost or moderate cost

rental housing project, including such buildings or such accommodation for retail stores, shops, offices and other community services, but not including hotels, as the company may deem proper and suitable for the convenience of the tenants of such rental housing project, and thereafter may hold, maintain, repair, alter, demolish, reconstruct, manage, collect or receive income from, sell or convey, in whole or in part, land so acquired and the improvements thereon.

Conditions of investment under subsection (1).

- (2) The Conditions under which an investment referred to in subsection (1) may be made are as follows:
- (a) the project shall, in the discretion of the Corporation, be constructed in accordance or in harmony with an official community plan satisfactory to it;
 - (b) The project shall be designed to provide housing accommodation for families of low or moderate income and the Corporation may prescribe a maximum average cost per room or per family housing unit provided thereby, or per person to be accommodated;
 - (c) the company shall submit to the Corporation an application in a form to be prescribed by it and accompanied by the following:
 - (i) A map showing the location of the land and of the structures thereon, the purchase of which is deemed by the company to be necessary to the project,
 - (ii) A plan and specifications prepared by an architect showing the buildings or improvements to be constructed thereon pursuant to the project,
 - (iii) an estimate of the cost of the entire project prepared by an architect or engineer and approved by the company,
 - (iv) an estimate of the rentals of the family housing units and the other facilities to be provided necessary to assure a minimum return of six per cent per annum upon the cost of the entire project after payment of all taxes, insurance, cost of operation and maintenance, and an annual amount sufficient to amortize the cost of construction of the project less the cost of the land, within a period representing the estimated useful life of the project but not in any case exceeding fifty years from the date of completion of the project, and
 - (v) such other information or material as the Corporation may require; and
 - (d) the investment is approved by the Corporation.

Guarantee to life insurance company.

- (3) Where a life insurance company agrees with the Corporation
- (a) to maintain separate books and records relating to a rental housing project in which the company invests under this section satisfactory to the Corporation and open to its inspection at any time,
 - (b) to establish a reserve on account of the project comprising all net earnings in any year after its completion in excess of seven per cent per annum on the cost of the project, and
 - (c) to repay out of the reserve any advances made by the Corporation under the guarantee hereinafter mentioned,

the Corporation shall guarantee to the company, for as long as it retains ownership of the whole or any part of the project, a net return in any year after the

completion of the project of three per cent per annum of the cost of the project for a period not exceeding the estimated useful life of the project and in any case not exceeding fifty years.

"Net return in any year" defined.

(4) For the purpose of this section "net return in any year" means an amount equal to annual net earnings derived from the project computed by deducting from the total annual revenues therefrom all expenses of the year in respect thereof, including provision for taxes, insurance, repairs and maintenance, interest and amount sufficient to amortize the cost of construction of the project, including the cost of the land, over the estimated useful life of the project.

Two or more companies join in project.

(5) Two or more life insurance companies may join in the development, ownership and management of a rental housing project under this section.

Approved lenders designated.

(6) The Governor in Council may for the purposes of this section designate

- (a) an approved lender subject to the jurisdiction of Parliament, and in such case subsections (1) to (5) and section 20 *mutatis mutandis* apply to the approved lender, except that the amount of its funds that may be invested shall not exceed five per cent of its assets in Canada at such amount as is approved by the Governor in Council for the purposes of this section, and
- (b) an approved lender that is not subject to the jurisdiction of Parliament but is empowered to make investments referred to in this section, and in such case subsections (2) to (5) and section 20 *mutatis mutandis* apply to the lender, but the amount of investments in respect of which guarantees may be given under this section shall not exceed five per cent of its assets in Canada at such amount as is approved by the Governor in Council for the purposes of this section.

Regulations.

(7) The Governor in Council may make regulations to provide for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this section.

Power of Corporation to determine administrative matters.

(8) The Corporation may

- (a) prescribe the manner in which the cost of a rental housing project shall be calculated for the purposes of this section and may adjust the cost in the event of the sale of a portion of a rental housing project or an addition thereto,
- (b) prescribe the manner in which the net earnings shall be calculated for the purposes of this section, and
- (c) take such other measures as the Corporation may deem necessary or desirable to give effect to the purposes or provisions of this section and to safeguard the interests of the Corporation.

Insurance company may acquire land.

(9) Prior to the approval of an investment pursuant to paragraph (d) of subsection (2) a life insurance company subject to the jurisdiction of Parliament may, notwithstanding any restriction on its power to invest money contained in any other statute or law, with the approval of the Corporation, purchase land

for the purpose of making an investment under subsections (1) and (2) and may hold and manage the land upon such terms and conditions as the Corporation may specify.

Mr. HELLYER: May clause 19 stand until we can ask a question on it?

The CHAIRMAN: Clause 19?

Stands.

Mr. MANSUR: Mr. Chairman, there are two typographical errors in clause 19. On page 24, line 42, and page 25, line 3. They are purely typographical errors.

The CHAIRMAN: Clause 20: "Aggregate principal amount guaranteed".

Carried.

Clause 21:

Company may invest funds in purchase of land for housing development.

21. (1) Notwithstanding any restriction on its power to lend or invest money contained in any other statute or law, any life insurance, trust or loan company subject to the jurisdiction of Parliament, (in this section called "company") may, subject to the conditions hereinafter set out, invest its funds in the purchase and improvement of land to be used for a residential housing development to an aggregate amount that, when added to the aggregate amount invested by the said company under section 19, does not exceed the limitation on the investment imposed by or pursuant to section 19 and subject to the provisions of this section may hold, maintain, repair, alter, demolish, improve, manage, collect or receive income from, sell or convey, in whole or in part, land so acquired and the improvements thereon.

Conditions of investment.

(2) The conditions under which an investment referred to in subsection (1) may be made, are as follows:

- (a) the land shall, in the opinion of the Corporation, be suitable for a residential housing development;
- (b) the purchase price of the said land shall be satisfactory to the Corporation;
- (c) the improvements to be effected and the cost thereof shall be satisfactory to the Corporation;
- (d) the company shall submit to the Corporation an application in a form satisfactory to the Corporation containing such information and accompanied by such material as the Corporation may prescribe;
- (e) the investment shall first be approved in writing by the Corporation; and
- (f) the company shall enter into an agreement with the Corporation in accordance with subsection (3).

In case of agreement with the corporation.

(3) Where a company agrees with the Corporation

- (a) to acquire land and effect improvements thereon in accordance with this section.
- (b) to maintain separate books and records relating to the land, the expenses incurred in respect thereof, the improvements made thereon and sales made thereof satisfactory to the Corporation and open to its inspection at any time, and
- (c) to sell the land at such price as the Corporation may determine and on terms and conditions satisfactory to the Corporation or as may be set out in the agreement,

Corporation to guarantee return and interest.

the Corporation shall guarantee to the company for so long as it retains ownership of the whole or any part of the land in which an investment is made pursuant to this section but not longer than the time specified in the agreement, which shall not exceed five years from the date of acquisition of the land by the company, the return of an amount equal to the company's investment in the land, together with interest thereon at a rate specified in the agreement but not in excess of three per cent per annum compounded annually.

Further provisions of agreement.

- (4) The agreement referred to in subsection (3) may also provide
 - (a) that the company shall plan the development of the land in a manner satisfactory to the Corporation and as a condition of the sale of the land shall receive an undertaking from the purchaser that any structures erected upon the land shall conform to the plan of the area and shall comply with standards of construction prescribed by the Corporation under this Act, and
 - (b) for such other measures to be taken by the Corporation and the company as the Corporation may deem necessary or desirable to give effect to the purposes or provisions of this section, and to safeguard the interests of the Corporation.

Corporation to determine amount of interest, investment and amount recovered.

(5) At the end of the time specified in the agreement referred to in subsection (3), or when all the land has been sold by the company, whichever is the earlier, the Corporation shall

- (a) determine the aggregate amount of the investment by the company in the land and the interest thereon at the rate specified in the agreement compounded annually, and
- (b) determine the amount recovered by the company out of the land from sales thereof or otherwise.

When Corporation to pay excess.

(6) If the aggregate amount determined pursuant to paragraph (a) of subsection (5) exceeds the amount determined pursuant to paragraph (b) of that subsection, the Corporation shall pay to the company the amount of such excess, and the company shall transfer and convey to the Corporation all the unsold portion of the land.

When company to pay excess.

(7) If the amount determined pursuant to paragraph (b) of subsection (5) exceeds the amount determined pursuant to paragraph (a) of that subsection the company shall pay the amount of such excess to the Corporation.

Companies may join in purchase of land.

(8) Two or more companies may join in the purchase and improvement of land for a residential housing development under this section.

"Investment" defined.

(9) For the purpose of this section "investment" includes the purchase price of the land, moneys expended on the installation of services, the laying out and construction of streets, sidewalks, lanes and the development of park

areas, public space and facilities appropriate to a residential housing development, and such carrying charges and other expenses incurred by the company in respect of the land as may be approved by the Corporation, including taxes, insurance, repairs and maintenance.

Governor in Council may designate lender as companies.

(10) The Governor in Council may designate as a company, for the purposes of this section,

- (a) an approved lender subject to the jurisdiction of Parliament, and in such case subsections (1) to (9) *mutatis mutandis* apply to the lender, but the amount of its funds that may be invested shall not exceed five per cent of its assets in Canada or such amount as is approved by the Governor in Council for the purposes of this section, and
- (b) an approved lender that is not subject to the jurisdiction of Parliament, but is empowered to make investments referred to in this section, and in such case subsections (1) to (9) *mutatis mutandis* apply to the lender, but the amount of investments in respect to which guarantees may be given under this section shall not exceed five per cent of its assets in Canada or such amount as is approved by the Governor in Council for the purposes of this section.

Regulations.

(11) The Governor in Council may make regulations to provide for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this section.

Corporation may take necessary measures.

(12) The Corporation may take such measures as it deems necessary or desirable to give effect to the purposes or provisions of this section and to safeguard the interests of the Corporation.

Mr. FRASER (*Peterborough*): May the clause stand?

The CHAIRMAN: Clause 21.

Stands.

Clause 22, subclause (1) (a), (b), (c) and subclause 2,

"Advances out of C.R.F. to make loans and pay losses."

Carried.

Part III "Housing Redevelopment".

Clause 23:

PART III.

HOUSING REDEVELOPMENT.

Grants to municipalities for clearance of slum areas.

23. (1) In order to assist in the clearance, replanning, rehabilitation and modernization of slum areas or blighted or substandard areas in any municipality, the Minister, with the approval of the Governor in Council, may enter into an agreement with the municipality providing for the payment of a grant to the municipality in order to assist in defraying the cost to the municipality of acquiring and clearing, whether by condemnation proceedings or otherwise, an area of land suitable either as a location for a low cost or moderate cost rental housing project or for any federal, provincial or municipal public purpose. Agreement with municipality.

- (2) An agreement entered into under subsection (1) shall provide
- (a) that the municipality will acquire and clear the area at an estimated cost to be fixed by the agreement and that the area will be developed in accordance or in harmony with an official community plan satisfactory to the Minister;
 - (b) that the municipality will sell the area, or some other area of a size sufficient to house at least the same number of persons as are living in the area to be cleared,
 - (i) to a limited-dividend housing company or a life insurance company for the construction thereon of a rental housing project under section 16 or 19, or
 - (ii) to the government of the province in which the area is situated and the Corporation jointly for the construction thereon of a rental housing project under section 36;
 - (c) for the payment by the Minister of a grant to the municipality in accordance with this section; and
 - (d) such other provisions as the Minister deems necessary or advisable for the proper carrying out of the purposes and provisions of this section.

Conditions of Grant.

- (3) No grant shall be paid to a municipality under this section unless
- (a) the government of the province in which the area is situated has approved the acquisition and clearance thereof by the municipality;
 - (b) the cost of acquisition and clearance, including cost of condemnation proceedings, less the amount of the grant under this section in respect thereof, is borne by the municipality or jointly by the municipality and the government of the province; and
 - (c) the cleared area, or some other area of a size sufficient to house at least the same number of persons as were living in the cleared area,
 - (i) has been sold or agreed to be sold to a limited-dividend housing company or a life insurance company that has agreed to construct thereon a rental housing project under section 16 or 19 at a price that in the opinion of the Minister will enable the housing units of the project to be leased to tenants on a fair and reasonable basis, or
 - (ii) has been sold or agreed to be sold jointly to the Corporation and the province, the government of which has entered into an agreement with the Government of Canada under section 36 for the construction of houses thereon for sale or for rent.

Amount of grant.

- (4) A grant under this section shall not exceed one-half of the amount by which the lesser of

- (a) the cost of acquisition and clearance, including cost of condemnation proceedings, as estimated in the agreement between the Minister and the municipality, or
- (b) the actual cost of acquisition and clearance, including cost of condemnation proceedings,

exceeds

- (c) the price at which the area was sold, where it was sold for the construction thereon of a housing project under section 16, 19 or 36, or

- (d) the value of the area after clearance, where some other area was sold for the construction, thereon of a housing project under section 16, 19 or 36.

Limitation on cost of project under s. 36 in slum area.

(5) Where a project is undertaken under section 36 in a slum, blighted or substandard area, for the purpose of calculating the Corporation's share of the capital cost of the project, the cost of acquisition of the land for the project shall be an amount that in the opinion of the Minister represents a fair and reasonable price for the land, not including any amount in respect of the cost of clearing the land.

C.R.F.

(6) Grants under this section shall be paid out of the Consolidated Revenue Fund but the aggregate amount thereof shall not exceed twenty million dollars.

Regulations.

(7) The Governor in Council may make regulations respecting the manner in which costs are to be determined for the purposes of this section and providing for such other matters as may be deemed necessary and desirable for the carrying out of the purposes or provisions of this section.

Mr. FLEMING: May the clause stand?

The CHAIRMAN: Clause 23.

Stands.

Clause 24:

PART IV.

HOME IMPROVEMENT LOANS AND HOME EXTENSION LOANS.

Corporation to pay losses upon terms prescribed.

24. (1) The Corporation shall, subject to this section and sections 25 and 26, pay to a bank or to an approved instalment credit agency the amount of loss sustained by it as a result of a home improvement loan, or a home extension loan, if

- (a) the loan was made pursuant to an application in the form prescribed by regulation, signed by the borrower, stating the purpose for which the proceeds of the loan were to be expended;
- (b) the application stated that the borrower was the owner of the home in respect of which the loan was to be expended;
- (c) a responsible officer of the bank or of the approved instalment credit agency certified that he had scrutinized and checked the application for the loan with the care required of him by the bank or the agency in the conduct of its ordinary business;
- (d) in the case of a home improvement loan, the principal amount of the loan did not exceed two thousand five hundred dollars in the case of a one-family dwelling, or two thousand five hundred dollars for the first family housing unit and an additional twelve hundred and fifty dollars for every other family housing unit in the case of a multiple-family dwelling;
- (e) in the case of a home extension loan, the principal amount did not exceed thirty-seven hundred and fifty dollars for the first family housing unit, which was to be added to the existing home as a result of the expenditure of the loan and twelve hundred and fifty dollars for each additional family housing unit so to be added;

- (f) the loan was repayable in full by the terms thereof in not more than three years if the principal amount of the loan did not exceed, in the case of a home improvement loan, twelve hundred and fifty dollars for a one-family dwelling or for each family housing unit in a multiple-family dwelling or, in the case of a home extension loan, twelve hundred and fifty dollars for each family housing unit to be comprised within the multiple-family dwelling, and in not more than five years in the case of any other loan;
- (g) the loan was repayable by the terms thereof in monthly instalments;
- (h) the rate of interest on the loan did not exceed the rate prescribed by the Governor in Council as long as the borrower was not in default;
- (i) the bank or approved instalment credit agency received from the borrower and remitted to the Corporation at the time of the making of the loan an insurance fee equal to one per cent of the amount of the loan;
- (j) except as provided in paragraph (i), no fee, service charge or charge of any kind other than interest, was by the terms of the loan payable so long as the borrower was not in default;
- (k) in the case of a home extension loan, the plans and specifications of the additions or alterations to be financed by the loan were approved by or on behalf of the Corporation before the loan was made;
- (l) no security by way of endorsement (other than that of the husband or wife of the owner) or otherwise was taken if the loan was made to an owner who occupied a one-family dwelling in respect of which the loan was to be expended so long as the borrower was not in default or except as provided by regulation in any other case; and
- (m) the loan was made on such terms and in accordance with such conditions in addition to those specified in the preceding paragraphs as may be prescribed by the regulations.

Termination of operation of this section by notice.

(2) The Corporation may, with the approval of the Governor in Council, by notice to a bank or an approved instalment credit agency, terminate the operation of this section in respect of home improvement loans or home extension loans, such termination to be effective after a time set out in the notice but not earlier than at least twenty-four hours after receipt of the notice at the head office of the bank or agency, and the Corporation is not liable under this Part to make any payment to the bank or agency in respect of any of such loans made after that time; but termination under this section does not relieve the Corporation of any liability imposed on it under this Part, in respect of a home improvement loan or home extension loan made by the bank or agency before the time of termination.

Notice only operative as to specified loans.

(3) A notice given by the Corporation under subsection (2) may terminate the operation of this section in respect only of home improvement loans or in respect only of home extension loans or in respect of any class thereof, as may be specified in the notice.

Mr. FLEMING: The minister is not here at the moment, but I would like to ask some questions about this clause. I do not know whether it is a question of policy or whether Mr. Mansur is able to speak on this, but perhaps we should let it stand until the Hon. Mr. Winters is here. My question is not as to the form, it is about the proclamation.

The CHAIRMAN: Suppose we pass it subject to that question which I hope the minister will answer.

Mr. HELLYER: I have a question on that clause, subclause 2.

The CHAIRMAN: Would you like to put it now, or do you wish it to stand?

Mr. HELLYER: It is subclause 2 on the 24 hours' notice. It is page 32, line 30. I would like that part of the clause to stand.

The CHAIRMAN: Clause 24, subclause 2.

Stands.

Mr. HELLYER: And subclause 1 section (i) to (m).

The CHAIRMAN: Clause 24.

Stands.

Clause 25, "Amount of payment for which corporation liable."

Carried.

Clause 26. "No liability on excess of \$125,000,000."

26. The Corporation is not liable under this Part to make any payment to a bank or approved instalment credit agency in respect of loss sustained by it as a result of a home improvement loan or a home extension loan made after the aggregate principal amount of guaranteed home improvement loans and guaranteed home extension loans equals one hundred and twenty-five million dollars.

Mr. HELLYER: I have a question on clause 26.

The CHAIRMAN: Clause 26 will stand.

Clause 27, "Regulations".

Regulations.

27. The Governor in Council may, on the recommendation of the Minister, make regulations,

(a) to define for the purposes of this Part the following expressions:

(i) "owner" with power to include as owners, life-tenants, persons holding property under agreements for sale, or under long term leases, and any other person having rights approximating ownership,

(ii) "repairs, alterations and additions",

(iii) "home", and

(iv) "responsible officer";

(b) to prescribe a form of application for guaranteed home improvement loans or guaranteed home extension loans;

(c) to prescribe in respect of guaranteed home improvement loans or guaranteed home extension loans

(i) the security if any, to be taken by the bank or the approved instalment credit agency making the loan, for the repayment thereof,

(ii) the terms of repayment and other terms not inconsistent with this Part upon which the said loans are to be made, or

(iii) conditions to the liability of the Corporation under this Part in respect of home improvement loans or home extension loans in addition to but not inconsistent with the conditions set out in paragraph (a) to (k) of subsection (1) of section 24;

- (d) to prescribe forms of notes, agreements, certificates and other documents to be used in connection with guaranteed home improvement loans or guaranteed home extension loans, or as are considered necessary or advisable for the effective operation of this Part;
- (e) to provide that in the event of an actual or impending default in the repayment of a guaranteed home improvement loan or a guaranteed home extension loan, the bank or the approved instalment credit agency that made the loan, may, notwithstanding anything contained in this Part, alter or revise with the approval of the borrower by way of extension of time or otherwise any of the terms of the loan, or any agreement in connection therewith, and that the alteration or revision shall not discharge the liability of the Corporation in respect thereof under this Part;
- (f) to prescribe in the event of default in the repayment of a guaranteed home improvement loan or a guaranteed home extension loan, the legal or other measures to be taken by the bank or the approved instalment credit agency and the procedure to be followed for the collection of the amount of the loan outstanding, the disposal or realization of any security for the repayment thereof held by the bank or agency, and the rate of interest to be charged on overdue payments;
- (g) to prescribe the method of determination of the amount of the loss sustained by a bank or approved instalment credit agency as the result of a guaranteed home improvement loan or guaranteed home extension loan;
- (h) to prescribe the steps to be taken by a bank or an approved instalment credit agency to effect collection on behalf of the Corporation of any guaranteed home improvement loan or guaranteed home extension loan in respect of which payment has been made by the Corporation to the bank or agency under this Part, and to provide that in the event of neglect by the bank or agency to take the said steps, the amount of the said payment may be recovered by the Corporation;
- (i) to require reports to be made periodically to the Corporation by a bank or approved instalment credit agency in respect of guaranteed home improvement loans or guaranteed home extension loans made by it; and
- (j) to make provision for any other matter which he deems necessary or advisable to carry out the purposes or provisions of this Part.

The WITNESS: In Clause 27, subclause (c) (ii) line 30, there is a small amendment: the word "or" should be changed to "and".

Clause 28, subclause 1 "False statement or unauthorized use of loans".

Carried.

Subclause (2) "Pecuniary penalty in addition to fine".

Carried.

Clause 29, "Subrogation of the rights of bank or agency to the corporation."

Carried.

Clause 30, "Amounts payable out of Consolidated Revenue Fund".

30. At the request of the Corporation the Minister may, out of the Consolidated Revenue Fund, advance to the Corporation, upon terms

and conditions approved by the Governor in Council, such amounts as the Minister considers necessary to enable the Corporation to discharge its obligations under this Part.

Stands.

Part V "Housing Research and Community Planning".

Clause 31, "Investigation into housing conditions."

Carried.

Clause 32, subclause (a), (b), (c), (d), (e), (f) and (g).

Carried.

Clause 33, "Technical research and investigation".

Subclauses (a), (b), (c).

Carried.

Clause 33 (d), "Compositions".

33. (1) The Corporation may, with the approval of the Governor in Council,

Competitions.

(d) conduct competitions to secure plans, designs and specifications that in his opinion are suitable for housing to be constructed at low cost, and purchase the said plans or otherwise compensate persons taking part in the said competitions;

Stands.

Clause 33, subclauses (e), (f) and (g).

Carried.

Subclause 2 "Guarantee to manufacturer".

Carried.

Mr. HELLYER: In clause 33 subclause (d) second line, the words "in his opinion". Is that a typographical error?

The WITNESS: I think that is the usual language referring to the Governor in Council.

Mr. CAMERON: It refers to the corporation.

The WITNESS: We will have a look at that subclause.

The CHAIRMAN: Clause 33 is carried subject to that.

Clause 34, "Advisory Committees".

34. The Corporation may, with the approval of the Minister, for the purpose of assisting it in carrying out its responsibilities under this Act, appoint such advisory committees as it may deem advisable and may pay the reasonable travelling and living expenses incurred by the members of the advisory committees while attending the meetings thereof.

Mr. FLEMING: I have a question on that clause about the advisory committee. Perhaps it should be directed to the minister, unless Mr. Mansur is prepared to answer a question about it with reference to the appointment of these advisory committees.

The WITNESS: They are all subject to the approval of the minister, and I think it would be better if he answered that question.

The CHAIRMAN: Clause 34 will stand.

Clause 35, "Payments out of C.R.F."

Carried.

Part VI, "Federal Provincial Projects".

Clause 36 "Corporation may undertake projects jointly with provinces."
Carried.

Part VII, "General".

Clause 37 "Powers of corporation".

Powers of Corporation.

37. (1) The Corporation may, out of moneys advanced to it under subsection (7),

- (a) acquire land or housing projects by way of purchase, lease or otherwise;
- (b) install services in and effect improvements to or in respect of land acquired by it and develop and lay out such land for housing purposes;
- (c) construct, convert, or improve housing projects; and
- (d) acquire building materials and equipment and other personal property for use in connection with housing projects.

Idem.

(2) The Corporation may

- (a) hold, operate, manage, heat, maintain, supervise, alter, renovate, add to, improve, repair, demolish, and salvage properties acquired by the Corporation;
- (b) acquire from Her Majesty the leasehold or other interest of Her Majesty in houses or housing projects;
- (c) sell, lease, exchange or otherwise dispose of real or personal property acquired by it pursuant to this Act or the *Central Mortgage and Housing Corporation Act*;
- (d) obtain the participation of municipalities in housing projects; and
- (e) enter into contracts to carry out and do other acts or things incidental to the purposes of this section.

Transfer of Crown lands to Corporation.

(3) The Governor in Council may by order transfer to the Corporation any lands or interest therein vested in Her Majesty and thereupon the lands or interest therein so transferred shall be deemed to be vested in the Corporation on a date to be fixed in the order.

Lands acquired pursuant to Loan.

(4) Whenever lands are acquired in the name of Her Majesty pursuant to this Act, the *National Housing Act*, chapter 188 of the Revised Statutes of Canada, 1952, *The Dominion Housing Act*, 1935, or *The National Housing Act*, 1938, the lands shall be deemed to be vested in the Corporation.

Property subject to Central Mortgage and Housing Corporation Act.

(5) Property acquired by the Corporation pursuant to this section and the proceeds of sale thereof and the revenue therefrom are subject to the provisions of the *Central Mortgage and Housing Corporation Act*.

Corporation may pay certain taxes.

(6) When real or immovable property is acquired by the Corporation or Her Majesty pursuant to this Act or the *Central Mortgage and*

Housing Corporation Act, the Corporation may pay to a municipality or other taxing authority an amount equivalent to the taxes that might be levied in respect to the property or of the interest of the Corporation or of Her Majesty therein by the said authority if the property or interest were not so acquired, and may enter into such agreements as may be necessary to give effect to the provisions of this subsection.

Advances

(7) The Minister may, out of moneys appropriated by Parliament for the purposes of subsection (1), make advances to the Corporation, on such terms and conditions as are approved by the Minister of Finance, and the Corporation shall give to the Minister in respect of such advances, debentures or other evidences of indebtedness as the Minister may require.

Stands.

Clause 38 "Contracts for houses to be sold to prospective home owners."
Carried.

Clause 39, "Corporation may execute documents."
Carried.

Clause 40.

Where loans not available Corporation may lend

40. (1) Where in the opinion of the Corporation a loan is not being made available to a person pursuant to Part I or section 15, the Corporation may make a loan to such person to assist in the construction of a house or housing project on the same terms and conditions and subject to the same limitations as those upon which a loan may be made to such person under the provisions of Part I or section 15.

Insurance

(2) When the Corporation makes a loan under this section pursuant to the provisions of Part I, it shall collect from the borrower an insurance fee in the same amount as an approved lender would collect from the borrower if the loan were made by an approved lender.

Insurance fees credited to Fund

(3) The Corporation shall credit the amount of any insurance fee collected pursuant to subsection (2) to the Mortgage Insurance Reserve Fund, and any loss incurred by the Corporation in respect of such loan when held by the Corporation shall be charged to the Fund.

Loan in name of Corporation on approved lender

(4) When a loan is made under this section on behalf of the Corporation by an approved lender pursuant to an agreement made under paragraph (f) of section 3 the mortgage taken in respect thereof may be taken in the name of the Corporation or in the name of the approved lender as determined by the said agreement.

The WITNESS: There is an amendment to subclause 3 and subclause 4 of clause 40.

The CHAIRMAN: Clause 40 stands.

The CHAIRMAN: Does clause 41, "Regulations" carry?

Carried.

Does clause 42, "Annual Report" carry in full?

Carried.

Does clause 43, "Coming into force, Transitional and Repeal", carry in full?

Mr. MANSUR: Mr. Chairman, in clause 43 there is an amendment by way of the addition of a new subclause 10.

Each Part to come into force upon proclamation

43. (1) Each Part of this Act shall come into force upon a day to be fixed by proclamation of the Governor in Council, and such proclamation may limit the type of loan to be made under any Part or the areas in which such loans may be made.

Termination and limitation of loans

(2) The Governor in Council may by proclamation fix and determine a day on and after which or a period during which no loans under any Part or Parts or no loans in excess of a stipulated maximum amount may be made.

Coming into force of ss. 1 to 5

(3) Sections 1 to 5 shall come into force on the day that Part I comes into force.

Termination of former Act

(4) On and after the day that Part I comes into force no loan shall be made under Part I, section 13, Part III or section 43 of the *National Housing Act*, chapter 188 of the Revised Statutes of Canada, 1952, (hereinafter in this section referred to as the "former Act"), unless the loan was approved by the Corporation prior to that day.

Idem

(5) On and after the day on which Part II comes into force no loan shall be made under Part II of the former Act, unless the loan was approved by the Corporation prior to that day, and no guarantee shall be entered into by the Corporation under section 19 or 21 of the former Act.

Idem

(6) On and after the day on which Part III comes into force no grant shall be made under section 22 of the former Act.

Idem

(7) The Corporation is not liable under Part IV of the former Act to make any payment to a bank or approved instalment credit agency in respect of loss sustained by it as a result of a home improvement or a home extension loan made after Part IV of this Act comes into force.

Idem

(8) Part V of the former Act is repealed on the day that Part V of this Act comes into force.

Idem

(9) Section 46 of the former Act is repealed on the day that Part VI of this Act comes into force, but the amount standing to the credit of the Special Account established by subsection (4) of section 46 of the former

Act shall, in addition to the amounts provided for in section 36 of this Act, be credited to the Special Account established by subsection (4) of section 36 of this Act, and any agreement made under subsection (1) of section 46 of the former Act shall, for the purposes of subsection (3) of section 36 of this Act, be deemed to have been made under Part VI of this Act.

The CHAIRMAN: Clause 43 stands.

Now gentlemen, if you will just follow me for a minute I will attempt to review the various clauses in order to make sure that we have a full understanding of those which stand.

In clause 1, I have made a note that subclause 13 is to stand.

Mr. FLEMING: Clause 2.

The CHAIRMAN: And subclause 19.

Mr. FLEMING: Mr. Chairman, you said clause 1. I think it should be clause 2.

The CHAIRMAN: That is right, clause 2, subclause 13.

Mr. JOHNSON: What page is that on?

The CHAIRMAN: That is on page 2.

Now, turning to page 3, the following subclauses are to stand:

(19) "Housing project."

(21) "Lender".

(23) "Limited dividend Housing company."

(24) "Low-rental housing project."

Now, on page 4—

Mr. CAMERON: Just a moment, please, Mr. Chairman. Would you please give us the numbers again?

The CHAIRMAN: Subclause 19, 21, 23 and 24 stand. Just put an "S" opposite them.

Now, on page 4, subclause 28 and clause 3(a) stands.

On page 6 there are some amendments, but there is nothing standing in this clause.

Mr. FLEMING: All of part 1 stands? Clause 5, "Insured Mortgage Loans", subclauses 1 to 13 inclusive.

The CHAIRMAN: Yes, that is right.

Mr. FLEMING: All of part 1, "Insured mortgage loans, stands? Clauses 6 to 13 inclusive.

The CHAIRMAN: Yes, that is right.

We are now entering part 2, "Housing for rental purposes and land assembly". Clause 14, "Contract guaranteeing rentals from rental housing projects." was carried in full.

Clause 15, "Loans for rental housing projects"?

Stands.

Clause 16, "Loans to limited dividend housing corporations"?

Carried in full, with the exception of subclause 4, at the bottom of page 17, "Terms of Contract."

Clause 17, subclauses 1, "Loans to borrowers engaged in mining, lumbering, logging or fishing" and subclause 2: "borrower" defined".

Stands.

At the bottom of page 21, subclause (h)?

Stands.

Clause 18, "Regulations by Governor-in-Council"?

Stands.

Clause 19, "Life insurance companies investment".

Stands.

Clause 21, "Company may invest funds in purchase of land for housing development."

Stands.

Clause 22, "Advances out of C.R.F. to make loans and pay losses,"

Carried.

Clause 23, "Grants to municipalities for clearance of slum areas" of part 3, "Housing Redevelopment" at page 29;

Stands.

Clause 24, "Corporation to pay losses upon terms prescribed."

Stands.

Clause 25, "Amount of payment for which corporation liable."

Carried.

Clause 26, "No liability on excess of \$125,000,000."

Stands.

Clause 27, "Regulations."

Stands.

Clause 28, "False statement or unauthorized use of loans".

Carried.

Clause 29, "Subrogation of the rights of bank or agency to the corporation".

Carried.

Clause 30, "Amounts payable out of Consolidated Renvue Fund."

Stands.

We will now review part 5, "Housing research and community planning."

Clause 31, "Investigation into housing conditions" clause 32, "General and special powers of corporation," and clause 33, "Technical research and investigation."

Carried.

Clause 34, "Advisory committees,"

Stands.

Clause 35, "Payments out of C.R.F."

Carried.

Turning now, to page 39, part 6, "Federal-Provincial projects," I noted that clause 36, "Corporation may undertake projects jointly with provinces."

Carried.

Under the heading, "General," in part 7 at page 41, I note that clause 37, "Powers of corporation."

Stands.

Clause 38, "Contracts for houses to be sold to prospective home owners."

Carried.

Clause 39, "Corporation may execute documents."

Carried.

Clause 40, "Where loans not available corporation may lend."

Stands.

Clause 41, "Regulations."

Carried.

Clause 42, "Report to the minister."

Carried.

Clause 43, "Coming into force transitional and repeal."

Stands.

All right, gentlemen, we are now on page 2, clause 2, subclause 13, "Family of low income." "2 - (13) "family of low income" means a family that receives a total family income that, in the opinion of the Corporation, is insufficient to permit it to rent housing accommodation adequate for its needs at the current rental market in the area in which the family lives;" I believe someone had some observations to make on this clause.

Mr. FLEMING: Yes, Mr. Chairman, I have some observations to make on that subclause. I asked to have it stand. In the present Act a family of low income is defined as meaning, "a family that receives a total family income of less than five times the economic rental of the family housing unit required to provide sufficient accommodation for the said family." Now, there are two changes made in this amendment. The first one is by the insertion of the words, "in the opinion of the corporation," as applied to the sufficiency of the accommodation, and then there is some addition to the reference to the housing accommodation which is now said to be adequate for its needs at the current rental value in the area in which the family lives. I think we should have some explanation of the two changes that are introduced?

The CHAIRMAN: A consolidation of the present Housing Act which is now being distributed. You will have an opportunity to look at it and compare it.

Mr. HUNTER: This is the old Act?

Mr. FLEMING: No, the present Act.

The WITNESS: Mr. Fleming, under the present Act a combination of those factors which you have mentioned makes a family of low income one whose income is not in excess of 60 per cent of the capital cost of the dwelling. In day to day operations we found that this definition is very difficult to apply. For instance, within a single community if the houses cost \$8,000 then by the present definition the family of low income is a family whose income does not exceed \$4,800. But if in the same community, and indeed on the next street, the houses cost \$10,000, in respect to those houses the family of low income is \$6,000. In working with local housing authorities and with limited dividend companies, it seemed to us that the families of low income, which the special public housing measures in the Act were attempting to look after, were those families whose incomes were at a level which did not permit the families to get rental accommodation in the ordinary market in that community. The amendment is directed towards that end.

By Mr. Johnston:

Q. Under this proposed amendment, you would have the opportunity of assessing the persons continuous employment, would you not? You would not adhere rigidly to that 60 per cent?—A. Oh no, Mr. Johnston, because in a place

like Saint John, New Brunswick, or St. John's, Newfoundland, a great many of the families have an intermittent income depending upon the activities in the port. This would be taken into consideration.

Q. Do you anticipate that this new section would give you a little more latitude than you had under the old section?—A. Yes, it will give us an opportunity to use our judgment as to what a family of low income is, and the criterion will not be the cost of the house that has been built to shelter them, but rather how well their income stands up in the local market to secure suitable housing accommodation.

By Mr. Fleming:

Q. There might be a question raised about the meaning of the word "area", particularly in regard to the great metropolitan areas. What is the meaning of the word "area" under this clause?—A. I would think the area would be the overall community within which they live and also with an eye to where they work. For instance, in an extreme example, let us assume that a family in Etobicoke works in Scarboro and there was a heavy rent differential between the two places. I would think, in the case of the family whose breadwinner worked at Scarboro, we would be thinking of the east end of Toronto rather than the west end of Toronto.

Q. It causes me a bit of difficulty when you talk about the "community". That is one of the words we use very loosely, just as we use the word "area" loosely. What we refer to as a "metropolitan area" could embrace many square miles, and yet when we talk about a community very often we think about the immediate neighbourhood, and perhaps half a dozen blocks in each direction. This causes me some trouble, Mr. Chairman, as to what this is all going to mean when it is enacted. I would like to see what kind of opinion you would write on this, Mr. Chairman, if you were asked to define "area" or "community."

Mr. McILRAITH: Isn't it a vague term where vagueness is needed?

THE WITNESS: You will also notice that under the old definition there was no leeway to distinguish between families in respect to a number of children in each one of the families. I think there is room to determine a family of low income with six children on rather a different basis than that on which we determine a family of low income who has one child.

Now I would agree, Mr. Fleming, that this definition leaves a fair amount of discretion to Central Mortgage but in working on this problem from one end of the country to the other, I am at a loss to come forward with a firm definition which would meet the very many contingencies we run into from coast to coast.

Mr. FLEMING: I am prepared to assume you will give a benevolent interpretation to this. I have a constitutional aversion to seeing too much power put into the hands of any government body in the matter of interpretation of statutory provisions. I think we would like to do our legislating here and not pass legislation so vague and general that it is left virtually to some other body to say what the legislation means. Can you be any more specific, Mr. Mansur, about the yardstick that you will apply? I think we will all agree that you will have rather different considerations in treating a family with several children from a family with one child. What yardstick are you going to apply if we legislate in the rather loose form in which this present definition of a family of low income now appears?—A. The over-all yardstick, Mr. Fleming, is that we will try by this definition to sort out the families whose incomes make them unable either to rent a house or buy a house.

Q. That still is pretty general.—A. But I do think that the problem has so many variations that it would be extremely difficult to draw a definition which would look after all the cases on the one hand, and on the other hand not be too generous and not cause discrimination.

Q. We don't want to open the door to discrimination. May I ask you, Mr. Mansur, whether you have found difficulty in the rigidity of the present definition?—A. No, I cannot say "rigidity", but our difficulty is that nobody, including ourselves, can figure out why it was included on that basis, and we think about the one criterion that one should not apply to establish a family of low income is the cost of the house into which we hope to move them. In other words, if we ran into difficulty on a project and the costs ran a thousand dollars more than we expected—more than they would have run had everything gone well—it just does not add up and make sense to say that for that community the income of a low-income family is now \$600 more than it would have been had the house cost a thousand dollars less. It is for that reason, Mr. Fleming; we do not believe that the formula contained in the present Act is meaningful with respect to the problem to be handled.

Q. I know that it has given some difficulty as it stands now. Those of us who are from Toronto know the problem has arisen there. The problem has arisen in a similar form in the United States over past years. It troubles me. We seem to be disposing of a formula that has not worked too satisfactorily, without substituting any yardstick. We are leaving it to the virtually unfettered discretion of the Central Mortgage and Housing Corporation.—A. Mr. Chairman, in regard to the reference to Toronto, I would like to make it perfectly clear that we had nothing whatsoever to do with the rental scale adopted by the Regent Park housing authority.

Q. But it was a problem that related to the matter we are discussing.—A. I might also say that in our dealings with the province of Ontario we worked on an arrangement that the top income of eligible families is at least 10 per cent below the income level which we consider to be in the economic band in that community. In other words, we have attempted in public housing projects to ensure that there be about a 10 per cent gap between those eligible for entry into the public housing and those able to buy a house or rent a house on their own. Even that operation, Mr. Fleming, is subject to the difficulties you have just mentioned. In the case of public housing projects under section 36 with Ontario, it is a question of judgment between ourselves and the officials of the Department of Planning and Development in Ontario. I do not suggest we are infallible, but I do suggest that we have this point very much in mind, and I think that with the number of projects that there are at the present time and the very low level of complaint that we have received, there must be some general satisfaction upon the manner in which we have attempted to handle the problem.

The CHAIRMAN: Gentlemen, I think this can be said, that it has the possibility of an improvement, and it appears to be the result of some experience. It would be worth while to give the new section a try and see how it works out.

By Mr. Fraser (Peterborough):

Q. Mr. Mansur said they give different classifications to a family with one child and one with six children. The one with six would be classed as one with a lower income.—A. Yes, a family with six children, with \$3,600 a year, might be viewed in the same light as perhaps a family with \$2,800 with one child. I don't know if those figures are right, but that is the general principle.

Q. He needs the house.—A. And the size of the house he needs is quite different.

Q. In your classification you not only take in the children but you also check into the man's habits, whether he has any debts against him, and that sort of thing?—A. Well, we make credit inquiries.

Q. That is what I mean.—A. Because we cannot subject ourselves to administrative expenses on a man and his family with a long record of never paying their rent.

Q. I agree with you.

The CHAIRMAN: 13 is carried. The next one is 19. You raised, it did you not, Mr. Fleming? Or who raised it? Just a moment. Clause 23 stands.

Mr. FLEMING: Clause 23 is the one in which the co-operatives are involved by way of an amendment?

The CHAIRMAN: Clause 19 stands. Clause 21? We are now at 21. Who raised that?

Mr. FLEMING: I am not sure whether I did or not. But I wonder if it has any bearing on the amendment asked for by the co-operative unions? The specific amendment they asked is in respect to clause 2 subclause (23). In looking at it quickly I am not at all sure that the amendment they have drawn is adequate to fulfil the purposes that they have in mind.

The CHAIRMAN: All right. 21 and 23.

The WITNESS: I think their ideas were directed entirely to 23, because 21 deals with lending institutions.

The CHAIRMAN: All right. Clause 21.

Carried.

Clause 23 stands in order to give you time to consider an amendment.

Mr. FLEMING: Just one point: I do not know whether the co-operative unions had any advice on the technical features in drafting their amendment. If they did not, it strikes me that it would be well if that were referred to the Legislative Counsel and we could consider their request on the basis of its merit rather than the particular form in which it is put forward. I wonder if the form in which they have put it forward is adequate to fulfil the purposes that they have in mind?

The CHAIRMAN: We will give it some thought tomorrow. Now, clause 24.

Mr. FLEMING: I asked you to stand it along with clause 13. I wonder what occasion there would be for the addition of those words. You have a low rental housing project designed for families of low incomes. Then there is this widening to include such other persons as the corporation may designate, having regard to certain factors?

The CHAIRMAN: It is in the old Act, Mr. Fleming.

By Mr. Fleming:

Q. Have you had occasion to apply it?—A. Yes. There is no change there from the old Act. This is a re-enactment. Occasionally we run fresh out of low income families. There is an adjustment of income in respect to families in a community. We have an element of this at Atikokan at the moment and the whole reason for the escape in the latter part of the clause is to give us some elbow room in which to move around when such a condition occurs. For instance, we might run into a condition where a man returning from Korea enters into a community and it is felt essential to give him and his family shelter for a limited period until they have found their feet. The escape in the latter part of the definition would provide a special means to handle such a situation in that fashion.

Q. Of course the definition in the wording which is in the present Act does not confine it in terms to a temporary situation. As you have interpreted it to us you have in mind only a temporary situation.—A. Up to date we have never contemplated anything else. And in the case I mentioned we are now

negotiating to see if we can rectify the situation because we feel very strongly that the moneys in the original instance were appropriated by Parliament for this specific purpose, and that it is our duty to see that the purpose is fulfilled. But in day to day operations I think that an escape provision such as suggested in clause 24 is required.

Q. You have made out a case for an escape, and I think your statement on it is reassuring as long as we understand that you intend to exercise the power conferred on you with reference to the designation of "other persons" only under temporary conditions.—A. Yes, Mr. Fleming. But remember that in our administration this definition of a low rental housing project is included in the agreement with the local limited dividend company. Most of them, like ourselves, believe that we should at all times make an effort to fulfil the general purposes indicated in the statute. But from time to time special cases arise. For instance, there is the case of a family whose income has gone beyond the limit, and they simply cannot find a place to live. They are given a month to month tenancy. Were there not authority for us to waive this requirement, then we would be looking for rather more authority than you would care to grant, I think.

Q. Your assurance is that this will be applied only to temporary cases such as you referred to here, namely, a condition of shortage, over-crowding or congestion of housing.

The CHAIRMAN: Yes. It is very hard to define "temporary".

The WITNESS: I feel very strongly on this, and as far as I am concerned, I can give you my assurance without any reservation at all. But I am not quite sure of every contingency that might arise over the next 10 years.

The CHAIRMAN: We will be looking at this bill again before the next 10 years have elapsed.

By Mr. Fleming:

Q. Under this section you say there could be a possibility, if you come into an area where there are not so many low income groups?—A. Yes.

Q. Would you raise the rent accordingly then?—A. That is one of the possibilities; but if we raise the rental accordingly, we get the surplus earnings. A limited dividend company is limited to 5 per cent of its capital. There is a certain amount of reluctance to turn surplus earnings over as income to Central Mortgage, we are really up against it.

Q. How would you handle a case like that?—A. In a community where there are not enough families of low income, I think we would have to make arrangements to move houses into the home ownership market.

Q. You mean to provide outright sales?—A. Yes, and to remove the present $3\frac{3}{4}$ per cent interest rate and replace it with a $5\frac{1}{4}$ per cent interest rate because certainly the original loan under the old section 9 was never intended for families who did not need assistance in the housing field. If they graduate out of it, it is up to us to do something about it.

Mr. HELLYER: Would not this section apply to the low rental housing projects under section 2 of the Dominion Act?

The WITNESS: That is right. And in that connection the way we are seeking to do that is that in the scale of rental to be paid by families in the federal-provincial subsidized project, we tilt the percentage income to be used as rental sharply upwards as the family passes 80 per cent of the income range which would pay an economic rent. So when they come to the economic level of income in public housing projects they are paying over and above that which the scale contemplated had the scale been without tilt. That is a great encouragement to them to move out and find homes of their own.

Mr. BENIDICKSON: Was there not something in the old Act which permitted the sale of a house constructed under a limited dividend agreement?

The WITNESS: The limited dividend companies agree with us that they will not sell the houses and that they have no right to repay the mortgage So they are frozen by the agreement. In the Act, prior to 1949, there was provision that the residual value of the property, after the amortization period, was disposed of as directed by Central Mortgage and Housing. In 1949 Parliament changed that and the residual value of the property remains in the ownership of the limited dividend company.

Mr. BENIDICKSON: There are a couple of industries I was trying to persuade to take advantage of this limited dividend opportunity and they both said: "We would be pleased to get started on that basis, but we do not want to be forever landlords of our employees," and they say "under the present Act we cannot get out under that provision; we cannot encourage them to buy those houses."

The WITNESS: If we wanted to build houses in company towns I can think of no better way to promote them than for the company to make application as a limited dividend company and get the money at 3½ per cent, build the houses, and rent them during the earlier stage, and then sell them to the employees, but I do not think that is within the spirit and intent of the limited dividend section of the Act.

Mr. TUCKER: This is a definition clause, and it seems to me when you are defining low rental housing projects you should not have a definition in which you could have a situation where you were not building for people of low income but to relieve a housing shortage. It seems to me you should have your definition clear and concise as to what you mean by low rental housing projects and then have your escape clause in some other part of the Act, because actually what you are doing here is defining low rental projects where public money may be used to provide it for people of the low income group, but you are putting in that definition a group of people who should not be entitled to public money for that purpose. It seems to me this definition should be clear and concise because you are defining what you mean by low rental housing projects. That does not say that you cannot say later on in the Act if you have properly set up a project to provide for people of low income group you should not rent and you should provide that there is power to rent in the case of necessity. It seems to me, with all deference, we should not consider it good draftmanship to define low rental housing when it includes something else.

The WITNESS: I do not think that it includes something else.

Mr. TUCKER: It says "to be rented to such other groups having regard to the existence of conditions of shortage or crowding and congestion". In other words, you could decide that this applies to people in a high income group as long as a condition of crowding or congestion existed. I do not think that that is good draftmanship, with all deference.

The WITNESS: I believe that, if you so desire, the escape proportion of that clause could be moved over into the operating section. I do not believe though that the physical moving by 12 pages will change the situation very much.

Mr. TUCKER: Except as a matter of redraftmanship. When you are reading a definition of something to which you will have to apply special provisions it should be very clear and precise and should not draw in other things. The escape clause should be in the operative part of the bill, not in the definitions.

Mr. BENIDICKSON: I did not have in mind company towns as I understand company towns to be. I have in mind two towns where the municipal finances are such that this thing could not be started at the instance of the municipality. They do not have the resources and there is no wealth where somebody would do some speculative building. But, there is a housing need. An industry would be prepared to do something under this limited dividend scheme if they could see that they could eventually get out of it. They do not want to make a profit.

The WITNESS: We have had one or two of them come in to see us, and though I may have replied cynically I did not mean to do so. We would be getting a promotional scheme if the companies could start off with 3½ per cent with a long amortization period and get the houses built and sell them to the tenants on a long term basis. It seems to me to be an excellent promotional step. Whether or not it would be in accordance with the spirit and intent, I am not too sure.

The CHAIRMAN: We are now at clause 20. Thank you for your observations, Mr. Tucker, shall the section carry?

Carried.

There is an amendment to clause 28 which will have to wait.

Clause 23:

PART III.

HOUSING REDEVELOPMENT.

Grants to municipalities for clearance of slum areas

23. (1) In order to assist in the clearance, replanning, rehabilitation and modernization of slum areas or blighted or substandard areas in any municipality, the Minister, with the approval of the Governor in Council, may enter into an agreement with the municipality providing for the payment of a grant to the municipality in order to assist in defraying the cost to the municipality of acquiring and clearing, whether by condemnation proceedings or otherwise, an area of land suitable either as a location for a low cost or moderate cost rental housing project or for any federal, provincial or municipal public purpose.

Agreement with municipality

- (2) An agreement entered into under subsection (1) shall provide
- (a) that the municipality will acquire and clear the area at an estimated cost to be fixed by the agreement and that the area will be developed in accordance or in harmony with an official community plan satisfactory to the Minister;
 - (b) that the municipality will sell the area, or some other area of a size sufficient to house at least the same number of persons as are living in the area to be cleared,
 - (i) to a limited-dividend housing company or a life insurance company for the construction thereon of a rental housing project under section 16 or 19, or
 - (ii) to the government of the province in which the area is situated and the Corporation jointly for the construction thereon of a rental housing project under section 36;

- (c) for the payment by the Minister of a grant to the municipality in accordance with this section; and
- (d) such other provisions as the Minister deems necessary or advisable for the proper carrying out of the purposes and provisions of this section.

Conditions of grant

- (3) No grant shall be paid to a municipality under this section unless
- (a) the government of the province in which the area is situated has approved the acquisition and clearance thereof by the municipality;
 - (b) the cost of acquisition and clearance, including cost of condemnation proceedings, less the amount of the grant under this section in respect thereof, is borne by the municipality or jointly by the municipality and the government of the province; and
 - (c) the cleared area, or some other area of a size sufficient to house at least the same number of persons as were living in the cleared area,
 - (i) has been sold or agreed to be sold to a limited-dividend housing company or a life insurance company that has agreed to construct thereon a rental housing project under section 16 or 19 at a price that in the opinion of the Minister will enable the housing units of the project to be leased to tenants on a fair and reasonable basis, or
 - (ii) has been sold or agreed to be sold jointly to the Corporation and the province, the government of which has entered into an agreement with the Government of Canada under section 36 for the construction of houses thereon for sale or for rent.

Amount of grant.

- (4) A grant under this section shall not exceed one-half of the amount by which the lesser of
- (a) the cost of acquisition and clearance, including cost of condemnation proceedings, as estimated in the agreement between the Minister and the municipality, or
 - (b) the actual cost of acquisition and clearance, including cost of condemnation proceedings,
- exceeds
- (c) the price at which the area was sold, where it was sold for the construction thereon of a housing project under section 16, 19 or 36, or
 - (d) the value of the area after clearance, where some other area was sold for the construction thereon of a housing project under section 16, 19 or 36.

Limitation on cost of project under s. 36 in slum area.

- (5) Where a project is undertaken under section 36 in a slum, blighted or substandard area, for the purpose of calculating the Corporation's share of the capital cost of the project, the cost of acquisition of the land for the project shall be an amount that in the opinion of the

Minister represents a fair and reasonable price for the land, not including any amount in respect of the cost of clearing the land.

C.R.F.

(6) Grants under this section shall be paid out of the Consolidated Revenue Fund but the aggregate amount thereof shall not exceed twenty million dollars.

Regulations.

(7) The Governor in Council may make regulations respecting the manner in which costs are to be determined for the purposes of this section and providing for such other matters as may be deemed necessary and desirable for the carrying out of the purposes or provisions of this section.

Clause 23 stands.

Clause 39.

There is an amendment.

We are at clause 4.

G. in C. may prescribe interest.

4. (1) Subject to subsection (2), the Governor in Council may by regulation prescribe the maximum rate of interest payable by a borrower in respect of a loan made under this Act.

Maximum interest.

(2) The rate of interest prescribed under subsection (1) shall not exceed the interest rate on long term Government bonds

- (a) by more than two and one-quarter per cent in respect of loans made under Part I;
- (b) by more than two and one-quarter per cent in respect of loans made under section 15;
- (c) by more than one-half of one per cent in respect of loans made under section 16 and
- (d) by more than one and one-half per cent in respect of loans made under section 17.

"Interest rate on long term Government bonds" defined.

(3) In this section "interest rate on long term Government bonds" means the rate of interest return that would be yielded in the market by Government of Canada bonds that, at the time the maximum rate of interest is prescribed under subsection (1), would mature in twenty years, such return to be determined by the Governor in Council on the basis of the yields of the most comparable issues of Government of Canada bonds outstanding in the market.

Someone asked if that clause stands?

Mr. FLEMING: I think it had better stand until such time as the minister can be with us. I have something I wish to know about the rate that is going to be proclaimed under the regulatory power vested in the Governor in Council by subclause 1.

Mr. TUCKER: Can we not consider the suggested technical amendments and deal with them?

The CHAIRMAN: I thought you wished an opportunity to examine them. I am prepared to deal with them. Let us look at the technical amendments, clause 2(19), page 3, line 22, strike out the words "one-family dwellings" and substitute the word "houses".

Mr. FLEMING: That means it will include houses accommodating two families?

The WITNESS: That is right.

Mr. FLEMING: Have you any other definition in subclause 18?

The WITNESS: There is an overlap here in that both of the definitions include the duplex and we are trying to sort out the duplex into the house category.

The CHAIRMAN: Will someone move that amendment?

Moved by Mr. Hunter, seconded by Mr. McIlraith.

Carried.

Clause 2, subclause 28, in line 6, instead of the word "house" substitute the word "building", and in line 7 instead of the word "two" substitute "three or more".

Moved by Mr. Fraser (*St. John's East*):

Carried.

Mr. FLEMING: In subclause 28 what is the reason for the change from "two" to "three"?

The WITNESS: We are trying to get the duplex into the phrase 'house' and restrict the multiple family dwelling to mean three or more family housing units.

Mr. TUCKER: That should be read in conjunction with subclause 18 which defines houses.

Mr. FLEMING: Yes, "Houses" is broad enough to include duplexes.

The WITNESS: And that, Mr. Fleming, is because in the province of Quebec there are so many duplexes with home owner occupancy in the lower portion.

Powers of approved lenders.

3. Notwithstanding any restrictions on its power to lend or invest money contained in any other statute or law, any approved lender subject to the jurisdiction of Parliament may

(a) in accordance with this Act make insurable loans on the security of a first mortgage in favour of the lender;

The CHAIRMAN: In clause 3: "Ability to lend", on page 4, line 42, strike out the word "insurable" and substitute "approved", in subclause (a). This subclause should now read: "(a) in accordance with this Act make approved loans..."

Moved by Mr. Balcom, seconded by Mr. Hunter.

Carried.

The CHAIRMAN: I believe clause 3, subclause (b) is the next amendment, is it not?

The WITNESS: No, clause 4(1) is the next one.

Mr. FLEMING: That is to stand anyway.

The CHAIRMAN: Clause 4, "Interest" stands.

Mr. HUNTER: What about the amendment?

Mr. FLEMING: I do not think there is any objection to the amendment. This is clarification.

The CHAIRMAN: On page 5, in line 16, of clause 4(1), insert the words "to be" immediately before the word "made."

G. in C. may prescribe interest.

4. (1) Subject to subsection (2), the Governor in Council may by regulation prescribe the maximum rate of interest payable by a borrower in respect of a loan made under this Act.

The WITNESS: The amendment is to make it perfectly clear that the interest rate is applicable to a loan to be made. On the side of abundant caution it was suggested to us that would remove any possibility of the Governor-in-Council changing the interest rate in respect to loans already made.

Mr. FLEMING: Even to lowering it?

The WITNESS: That was the fear. I do not think there was so much fear about raising them, Mr. Fleming. Moved by Mr. Hanna, seconded by Mr. Tucker.

Carried.

The CHAIRMAN: The entire clause stands with the amendment. Now, clause 5, "Rights and obligations of the corporation" was carried.

Clause 6, "Insured mortgage loans,"—part 1 stands.

Mr. FLEMING: I suggest we leave that one until the minister is with us, Mr. Chairman.

The CHAIRMAN: For the purpose of discussing what, the interest?

Mr. FLEMING: Yes, and other features, too.

The CHAIRMAN: Let us go on to part 2, page 14. Let us deal with the amendments. Suppose we deal with the amendments to part 1, the amendments suggested by the corporation, and then let the clause stand?

Mr. TUCKER: That is right, Mr. Chairman.

Mr. FLEMING: Just a moment, Mr. Chairman, please. I think on these we will wish to know what is the position of the amendments proposed by the Dominion Mortgage and Investments Association. It was indicated earlier that the amendments now submitted to us by the Central Mortgage and Housing Corporation had been written after due consideration was given to the amendments proposed by the Dominion Mortgage and Investments Association. I think we would like to know if these amendments satisfactorily embody the others and whether we need to go back and look at the amendments previously submitted by the approved lending institutions?

The CHAIRMAN: They did not submit any amendments to us.

Mr. FLEMING: No, but they are the ones referred to in the evidence we had. Mr. Bryden referred to amendments they had submitted to the government some time ago after the bill had been put in their hands.

The WITNESS: Mr. Chairman, I believe that generally the amendments which we have brought forward met the judgment of the Dominion Mortgage and Investments Association. The amendments to the legislation which are now embodied in these technical amendments we have before us came out of long discussions, and a good many of them, between the Banker's Association, the Dominion Mortgage and Investments Association and Central Mortgage and Housing. To the best of my knowledge, there is no controversial issue left in respect to these amendments.

Mr. FLEMING: Everybody happy?

The WITNESS: Remarkably so, Mr. Fleming.

The CHAIRMAN: Clause 6: "Insured mortgage loans" on page 6, strike out subclause (5) and substitute the following:

(5) Notwithstanding section 7,

- (a) where the Corporation is satisfied that an approved loan cannot be fully advanced in accordance with this Act, and instalments of the loan approved by the Corporation have been made, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of the aggregate of all instalments approved by the Corporation in respect of which the insurance fee has been paid;

- (b) where the borrower refuses to accept the unadvanced portion of an approved loan, the Corporation may at the request of the lender issue to the lender an insurance policy in respect of that part of the loan that has been advanced and on which the insurance fee has been paid; and
- (c) where a house or housing project is substantially completed and ready for occupancy but completion is delayed by reason of seasonal weather conditions, the Corporation may at the request of the approved lender and on such terms and conditions as may be prescribed by regulation issue an insurance policy for the full amount of the approved loan, if the insurance fee has been paid on the portion of the loan that has been advanced.

Mr. FLEMING: This is a very long amendment. Would we not save time by perusing this overnight and letting it stand until tomorrow? I think if we do this, we will go through it more quickly.

The CHAIRMAN: Subclause 5 will stand.

Mr. TUCKER: It is a very simple change which says in effect that the insurance can be entered into before the project is completed. Why shouldn't we deal with it?

The CHAIRMAN: Let us incorporate it into the Act, then the whole clause will stand as amended.

Mr. FLEMING: It may look simple enough, but it is very long, and I would personally like the opportunity of perusing it overnight.

The CHAIRMAN: You do not have to pass judgment on it today. I will have it incorporated into the Act, and then let it stand.

Mr. FLEMING: Before you do any incorporating, which means adopting an amendment, personally I wish to give some study to it. It is very long—half a foolscap page.

The CHAIRMAN: We will permit it to stand.

In clause 6, on page 7, following subclause 8, add a new subclause, number 9 as follows:

Calculation of insurance fee.

(9) For the purposes of this section the insurance fee shall be calculated on the amount of the approved loan or an instalment thereof, less the insurance fee component of the approved loan or the instalment thereof.

The WITNESS: A word of explanation might be helpful there.

The CHAIRMAN: All right, Mr. Mansur.

The WITNESS: When we went over the bill with the prospective approved lenders, it was brought to our attention that the bill was not entirely clear that the insurance premium was on the net amount of the loan rather than on the gross amount of the loan. If the loan were \$10,000, and there was a \$200 insurance fee payable, it was suggested it would be well to make it abundantly clear that the 2 per cent premium was not compounded but would be calculated on the \$10,000 only, rather than on the \$10,200. The purpose of this amendment is to make it abundantly clear that we do not keep compounding the premium *ad infinitum*.

Mr. FLEMING: Is it also to overcome the difficulty which exists between clause 6, subclause 7 and clause 7, subclause 1-(r)?

The WITNESS: No, that was the difficulty, Mr. Fleming, that we have attempted to correct in the amendment which you suggested stand.

Mr. TUCKER: I move the amendment.

The CHAIRMAN: Moved and carried.

On page 7, subclause (1), after the words "it was made" the words "by an approved lender" are to be added. There is no difficulty about that.

7. (1) Subject to section 8, a loan is insurable if (a) it was made by an approved lender.

No objection to that. Moved by Mr. Tucker.

Carried.

Page 8, line 39, "80% of one-half of the lending value of each house".

Mr. HELLYER: Clause 7 might have some possibilities about the amendment.

The WITNESS: I will make an explanation, if you like. It will be noticed that under the definition of subsection (2) an approved lender means a lender approved by the Governor in Council for the purpose of making loans under this Act. This definition includes not only lending institutions that are subject to the jurisdiction of parliament, but includes lending institutions that operate under provincial authority. Now, if you move to clause 3, you will notice it gives lending institutions subject to the jurisdiction of parliament power to make insured loans. Now, it was represented to us that it should be perfectly clear that the powers granted under clause 7, subclause (1), have application not only to 'federal' lenders referred to in clause 3, but also to the wider group of lenders, including the 'provincial' lenders defined in clause 2 subclause (2). I think once again that that may be on the side of abundant caution, but it was one of the suggestions made to us. If there is any doubt in this respect then I think the amendment is a very proper one.

The CHAIRMAN: Page 8, line 39, insert the words "the other" before the words "one-half".

The WITNESS: That is a tidying-up operation only. You will notice that earlier on we used such phraseology, and we thought the phraseology should be the same.

The CHAIRMAN: Moved by Mr. Fraser (*St. John's East*).

Carried.

Page 9, line 32:

(n) it is secured by a first mortgage in a form prescribed by the Corporation on the house. . .

Strike out "the Corporation" and substitute "regulation".

The WITNESS: Mr. Chairman, it was felt that the mortgage deed which contains the contractual relationship between the borrower and the lender should be a matter for determination by the Governor in Council rather than by the corporation.

The CHAIRMAN: Page 9, line 36:

. . . leasehold interest of the lessee, and such additional security, assignments, assurances and agreements as. . .

the word "additional" is struck out and the word "further" is inserted.

Mr. Weaver so moves.

The WITNESS: Mr. Chairman, I understand there is a difference between "further security" and "additional security". In banking parlance, I understand they are very different things.

The CHAIRMAN: With us it is always additional security.

The WITNESS: That means the loan has gone bad!

The CHAIRMAN: How right you are!

Page 9, at the bottom—

Mr. HUNTER: Are these changes all carried?

The CHAIRMAN: Yes.

—to be added after paragraph “(p)”:

(q) when made to assist in the alteration of an existing residential structure, to add one or more family housing units thereto, it is for a term not in excess of 15 years”.

Mr. FLEMING: What happened to the present “(q)”?

The WITNESS: It becomes “(r)”.

Mr. FLEMING: All these will be advanced?

The CHAIRMAN: Yes, we changed the lettering.

Moved by Mr. Hellyer, seconded by Mr. Fraser (*St. John's East*).

Carried.

Mr. TUCKER: On page 9, it says: “when made to assist in the construction of a rental housing project, it is for a term—”. It seems to me the same phraseology is used in (q). In (p), for instance, the “loan is insurable if” and carrying on, “when made”. We added under (a) “it was made”—“if”, and then you have “when made”. You “if” and “when” there together. Is that good draftsmanship? I don't understand why it is drawn like that.

The WITNESS: Mr. Chairman, the drafting that was done by Central Mortgage was reviewed very carefully by the law officers of the Crown and there were a number of changes of this kind made. I can only say that this is what came out of the Department of Justice, and there seem to be distinctions between those alternative words which are beyond me. I don't understand them, but there evidently is a good reason for them.

Mr. FRASER (*Peterborough*): How will you administrate them if you don't know them?

The WITNESS: Because we will consider them to be written as if we had written them.

Mr. TUCKER: “Subject to section 8, a loan is insurable if . . . when it is made.” It should be “is insurable if made”, striking out the “when”, or “a loan is insurable”, and with the qualifying clause in the subjunctive, one or the other. “A loan is insurable when made to assist in the construction of a rental housing project, if it is for a term”. But you have: “it is for a term”. That really is not good English, as far as I can see.

The WITNESS: I wonder if I might refer Mr. Tucker's comments to the Department of Justice?

The CHAIRMAN: We will have them take a look at it.

Mr. TUCKER: The same thing in (q). We have “when” and then “it is”. I say that should be “if made” instead of “it is made”. In regard to housing units, also, it should be “if for a term” or “if it is for a term not in excess of fifteen years.”

The WITNESS: Can I refer that also, Mr. Tucker?

The CHAIRMAN: Yes.

Page 10, line 1, reletter paragraph “(q)” as paragraph “(r)”. Strike out lines 4 to 8, which is all of the present “(r)”, and substitute the following:

“(s) it was advanced

- (i) on completion of construction as determined by the corporation or,
- (ii) in the case of a loan the instalments of which are insured, in such instalments during the course of construction of the house or housing project as have been determined by the corporation, or

- (iii) in the case of an instalment loan that is not to be insured by the corporation until it is fully advanced in such instalments as have been determined by the approved lender;"

Can you explain what it is?

The WITNESS: Mr. Chairman, you will recall that in order to use the facilities of the present lending institutions the bill makes provision, for advances by the lending institutions on an insured basis. Now the lending institutions in that letter which you referred to, Mr. Fleming, asked that it be made abundantly clear, when they are making instalment loans, with the instalments not being insured, that when the loan was closed out, the amount that has been advanced is insurable. In order to meet such request this amendment is being put forward. They pointed out that sub clause (R) does not contemplate such transaction and suggested that if we wanted to go forward on that basis we should make it abundantly clear that the loan did not have to be advanced in full for it to be insured.

The CHAIRMAN: Moved by Mr. Hunter and seconded by Mr. Tucker, the clause carries.

Clause 7 (2) page 10 in line 16: (2) With the approval of the Corporation, borrower's charges may be added to the principal of an insured loan. insert the words "approved loan or an" immediately before the word "insured".

The WITNESS: There is a possibility that borrowers' charges might be required prior to the loan being fully advanced. Once again in the case of those companies making loans with uninsured instalments, it was thought necessary to make it clear that borrowers' charges could be advanced and could be insured at a later date. Therefore we propose that the words "insured loan" be changed to read "approved loan" so that such a transaction can take place.

Mr. FLEMING: Does it include both now?

The WITNESS: Yes. But, Mr. Fleming, the loan would not be insured until the lender making the uninsured instalments had completed the loan. And we want to make it perfectly clear that they are in the same position as they would have been had they been making insured instalments.

Moved by Mr. Bennett (*Grey North*).

Carried.

The CHAIRMAN: Clause 9 (1), page 11 "(d) where the default period in respect of any amount specified in paragraph (a) or (b) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount and on the amount specified in paragraph (c)". In line 33, strike out "(a) or (b)" and substitute "(a), (b) or (c)"; in lines 35 and 36 strike out the words "and on the amount specified in paragraph (c)";...

The WITNESS: I wonder if I might interrupt. We are having prepared—and I am sorry it is not here—a re-write of section 9. This is a most complicated amendment and it is almost impossible to follow it without the text.

The CHAIRMAN: Very well, let it stand.

The WITNESS: I wonder if it could stand.

The CHAIRMAN: Yes. Clause 9 will stand. Now, clause 11, (3) on page 13. In line 25.

The WITNESS: There was another amendment to clause 9, Mr. Chairman, on page 12.

The CHAIRMAN: Oh yes. Clause 9, page 12, add the following subclause:

- (5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the Corporation.

The WITNESS: Mr. Chairman, for the purpose of calculating loss settlements under clause 9, the amount owing to the lending institution is the basis on which the calculation is made. After the property has been conveyed to the lending institution, theoretically there just cannot be a mortgage account. They own the property. There is no mortgagor. Therefore there cannot be any mortgage account. But for the purpose of calculation we want a mortgage account to be allowed to run as if it was a mortgage account even after the conveyance so that we can make a calculation under section 9. Under the proposed regulation the lending institution has 30 days in which to make up its mind as to whether it wishes to convey the property to us, to make a claim against the insurance fund, or to hold on to the property without making such a claim. Therefore, if they do decide to make that claim, it is necessary that the account be carried on as if it were a mortgage account.

The CHAIRMAN: Moved by Mr. Hunter and seconded that the amendment carry?

Carried.

Clause 11 (3): Page 13—in line 25, “(3) When the Corporation has sold an obligation pursuant to subsection (2) it may issue an insurance policy in respect thereof to the purchaser and such obligation shall be deemed to be an insured loan and the Corporation shall, at the time of the sale, credit the Fund with one and three-quarters per cent of the amount of the obligation at the time of sale if it is in respect of a house, and two and one-quarter per cent thereof if it is in respect of a rental housing project.” insert after the word “sale” the following “except where the obligation is a loan acquired by the Corporation pursuant to subsection (1) or is a loan made pursuant to Part I under section 40”.

It is moved by Mr. Hellyer and seconded by Mr. Tucker that the amendment carry.

Carried.

The CHAIRMAN: There is a new subclause to be added, No. 4 of clause 11.

Mr. HUNTER: Is that carried?

The CHAIRMAN: Yes, it was moved by Mr. Tucker.

(4) Losses incurred by the Corporation in respect of a loan acquired by the Corporation pursuant to subsection (1) shall be charged to the Fund to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender and the mortgaged property acquired by the Corporation shall be an asset of the fund”.

The WITNESS: There is a legal concept abroad that we cannot be the owner of a mortgage and the insurer of the mortgage at the same time. Under section 40 it is contemplated that Central Mortgage may make insured loans where the lending institutions are unwilling to do so. The purpose of this amendment is to make it clear that where Central Mortgage has itself made an insured loan and a loss results, that we shall be treated in respect to the insurance fund exactly in the same way as an approved lender is treated. Apparently there is legal trouble in maintaining a dual position in which we are both the insured and the insurer.

The CHAIRMAN: It is moved by Mr. Tucker and seconded by Mr. Hunter that the amendment carry.

Carried.

Clause 12 (1) on page 13.

The WITNESS: Mr. Chairman, I wonder if at this point I might make one observation about 10 and 11. Yesterday we came to the conclusion that it

might be the case that the premiums paid into the insurance fund, and the income upon investment in the insurance fund would be subject to taxation. As you know, Central Mortgage is subject to income tax. We consulted with the income tax authorities this morning. They told us that such will be the case under the present wording. We are now consulting with the Department of Finance to see if some way cannot be found to avoid income tax. The insurance fund including the premiums and interest earnings would be subject to about a 50 per cent income tax. It may be that we will be suggesting an amendment later on.

Mr. HUNTER: Where would that come in?

The WITNESS: That would be in clauses 10 or 11, Mr. Hunter. It is in clause 10.

Mr. FLEMING: You can hardly blame individuals for trying to devise ways and means of avoiding the incidence of income tax when public corporations have an eye to doing the same thing.

The WITNESS: We do not think that the mortgage insurance fund is something which contemplates the attraction of income tax.

Mr. FRASER (*Peterborough*): What would you have to do, change the Income Tax Act?

The CHAIRMAN: We can insert a clause in the Act. It is a worthy objective

Mr. FLEMING: Has it been approved by the Minister of Finance?

The WITNESS: No, not yet.

The CHAIRMAN: Clause 12(1): Page 13—insert between paragraph (c) and (d) the following paragraph:

“(d) prescribe the circumstances in which a chattel mortgage, an assignment of rents or other security shall be taken as further security for any loans made under this Part;”

and reletter paragraphs (d), (e) and (f) as paragraphs (e), (f) and (g) respectively.

Clause 12(2):

(2) The Corporation may

- (a) prescribe sound standards of construction;
- (b) prescribe the procedures to be followed in authorizing advances by an approved lender to a borrower; and
- (c) prescribe such forms as may be required in connection with the making or administration of a loan and have not been provided for by regulation pursuant to subsection (1).

In lines 8 and 9, strike out “in connection with the making or administration of a loan” and substitute “for the purposes of this Part”.

The WITNESS: It is necessary for us to prescribe the forms in connection with making the loan, and it is also necessary to prescribe the forms in connection with the insurance operation. It was felt that if the amending words included everything under Part I, then we would be able to prescribe the forms for the operation of the insurance.

Moved by Mr. Hanna, seconded by Mr. Hunter.

Carried.

“15. (1) Notwithstanding any restrictions on its power to lend or invest money contained in any other statute or law, any approved lender subject to the Jurisdiction of Parliament, may lend on the security of a first mortgage in favour of the approved lender an amount not exceeding

eighty-five per cent of the estimated cost as determined by the Corporation of a rental housing project, the rentals of which are guaranteed by the Corporation pursuant to section 14 or in respect of which an undertaking has been given under subsection (2) of section 14."

The CHAIRMAN: Clause 15(1): In line 6, add immediately after "section 14" the following words "and sell or purchase loans made on rental housing projects the rentals of which are guaranteed by the Corporation pursuant to section 14, together with the security taken in respect thereof".

The WITNESS: The purpose of that amendment is to give authorization to approved lenders to buy and sell insured mortgage loans among themselves. The lenders brought to our attention that at the present time whereas they could make a loan subject to rental insurance they could not purchase one from another lending institution. They pointed out to us that one of the objects of the bill was to promote liquidity and it was desirable in that field as well as in the field of insured loans.

Carried.

Mr. FLEMING: The requirement still remains that the loan must be administered by an approved lending institution in all cases in order to retain the benefit of insurability?

The WITNESS: Under Part 1, that is true, but under Part 2 we have left the insured loan technique in. These loans made on properties insured by a rental insurance policy are not insured under the provision of clause 10 of the bill. Rather they are ordinary conventional loans made by the institution and the lending institutions takes not only the property as security, but also an assignment of the rental insurance policy guaranteeing that rents will be maintained at a certain level. The lending institutions are given authority to make these loans and also authority to trade them among themselves.

The CHAIRMAN: Clause 17, subclause 8. On page 21 at the bottom of the page, strike out subclause 8, the whole clause.

The WITNESS: It is a duplication.

Moved by Mr. Fraser, (*St. John's East*), seconded by Mr. McIlraith.
Carried.

The CHAIRMAN: Clause 18, subclause 2:
Regulations by Governor in Council.

18. (1) The Governor in Council may by regulation make provision for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this Part.

Power of Corporation to determine administrative matters.

(2) The Corporation may prescribe

- (a) the manner in which the cost of construction of a rental housing project or a low-rental housing project or the cost of converting existing buildings into a low-rental housing project shall be calculated or estimated and by whom and in what manner an appraisal of any rental housing project shall be made;
- (b) sound standards of construction and the arrangements that shall be made to assure adequate supervision of any construction or conversion in respect of which a loan is made under this Part;
- (c) the information to be given by an applicant for a loan under this Part;
- (d) the conditions and procedures under which the proceeds of any loan under this Part may be advanced to a builder or a limited-dividend housing company;

- (e) the circumstances in which a chattel mortgage, an assignment of rents or other security, may be taken as additional security for any loans made under this Part; and
- (f) the books, accounts and records to be maintained by a limited-dividend housing company to which a loan is made under this Part and the manner in which and by whom they shall be audited, and the form of the annual or any other report to be made to the Corporation.

Page 22 in line 37, strike out "may" and substitute "shall"; and in line 38 strike out "additional" and substitute "further".

Moved by Mr. Wood, seconded by Mr. Dumas.

Carried.

The WITNESS: In the case of an apartment house loan the approved lenders shall take a chattel mortgage on the refrigerators and on the stoves.

Mr. JOHNSTON: You distinguish between the words "shall" and "may"?

The WITNESS: Yes.

Mr. FLEMING: You are not empowering the lender to do this; you are defining the circumstances in which the corporation may request him to do so?

The WITNESS: Yes.

Carried

The CHAIRMAN: Clause 19, subclause 6: page 24 in line 42 strike out "at" and substitute "or".

Moved by Mr. Wood.

Carried.

The CHAIRMAN: Page 25 in line 3, strike out "at" and substitute "or"; clause 27 page 33 in line 30, strike out "or" and substitute "and".

Moved by Mr. Tucker, seconded by Mr. Ashbourne.

"(3) The Corporation shall credit the amount of any insurance fee collected pursuant to subsection (2) to the Mortgage Insurance Reserve Fund, and any loss incurred by the Corporation in respect of such loan when held by the Corporation shall be charged to the Fund."

Carried.

The CHAIRMAN: Now, clause 40 subclause 3:

—in line 18, add immediately after the word "Fund" the words "to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender, and the mortgaged property acquired by the Corporation shall be an asset of the Fund".

The WITNESS: That is a parallel amendment to the one I described earlier. It is required in this section to make the Bill clear, in respect to loans made by the corporation on an insured basis, that we shall be in the same position as the approved lender in respect to claiming upon the insurance fund.

Moved by Mr. Weaver, seconded by Mr. Dumas.

Carried.

Mr. FLEMING: I can understand the possibility of your being in the position of insured and insurer at the same time, but it is not quite so clear what you mean when you speak of making a claim on the insurance reserve fund yourself?

The WITNESS: Under clause 10 the only moneys that can be paid out of the fund are for settlement of claims under insured mortgages. I am advised by the law officers of the crown that as 10 reads at the moment it would be impossible for Central Mortgage, in its accounting, to debit the fund and credit Central Mortgage and transfer the property to the fund because our position as an insurer and an insured has become blended.

(4) When a loan is made under this section on behalf of the Corporation by an approved lender pursuant to an agreement made under paragraph (f) of section 3 the mortgage taken in respect thereof may be taken in the name of the Corporation or in the name of the approved lender as determined by the said agreement.

The CHAIRMAN: Clause 40 subclause 4:

—in lines 20 and 21, strike out the words “pursuant to an agreement made under paragraph (f) of section 3”; in line 24, strike out the words “the said agreement” and substitute the words “agreement between the Corporation and the approved lender”.

The WITNESS: Mr. Chairman, this is exactly the same point we mentioned earlier occurring again; that is to ensure that the subsequent portions of this bill are not limited to the federal lenders authorized under clause 3 but also includes the lenders of provincial origin contained in definition 2. This amendment, Mr. Chairman, was requested by the lenders.

Moved by Mr. Weaver, seconded by Mr. Wood.

Carried.

The CHAIRMAN: Clause 43, page 45, add the following subclause:

Reference to former Act

(10) A reference to the former Act in any other Act, or regulation made thereunder, shall be construed as including a reference to this Act.

That is a new section. *

The WITNESS: Mr. Chairman, the National Housing Act 1944 will continue in force in order to look after continuing responsibilities. The purpose of this section is to make it clear that in other Acts such as in the Insurance Act reference is to the National Housing Act 1954.

Mr. FLEMING: Have the law officers reviewed all the other legislation to make sure there is not more effect to this than that we may at the moment believe?

The WITNESS: Well, Mr. Fleming, the bill and the amendments which we have proposed to it have been drawn in consultation with the Department of Justice and it is certainly our feeling that the law officers of the crown are in agreement with the amendments and the bill. However, things have a habit of turning up, Mr. Fleming, so I will not vouch for it.

Mr. FLEMING: This is the kind of amendment we have had?

The WITNESS: Yes. I have with me a re-write giving the effect of the amendments to clause 9. Clause 9 is the basis of the insurance settlement. The changes are purely technical. We thought we had clause 9 drawn properly to give effect to the announced intention of the government. Then we started to make some calculations and we found that we had forgotten the important little matter of compounding interest at the mortgage rate for the six months and at the mortgage rate less 2 for the remaining 12 months. That sounds like a very simple matter to correct, but it has taken two or three amendments to do it. I would think, Mr. Chairman, if the committee would consider this re-write rather than going up and down the amendments that we made,

it might be simpler for them. It certainly was for me. But I can assure you, Mr. Chairman, that all the changes now proposed in clause 9 are purely technical in character and are being made for the purpose of ensuring that the approved lenders get, in the matter of loss settlement, that which they were told they would get at the time the minister made his second reading speech.

Mr. FLEMING: It was his first speech on the second reading?

The WITNESS: Yes.

The CHAIRMAN: He emphasized it in the second speech. Gentlemen, the amendments will not be printed by tomorrow, so you should keep Mr. Mansur's re-write on insurance settlement on clause 9 in front of you tomorrow. In any event, I do not think there is very much difficulty about this. Pay particular attention to clause 9.

Mr. TUCKER: Will that re-write be available tonight?

The CHAIRMAN: It is available now and is being distributed at this moment (see *Appendix "C"*). I think we have had about all we can deal with this afternoon. We will be back at this bill tomorrow morning at 11 o'clock, and I will ask you for your further co-operation in order that we might stay with it until we have finished it. I realize that the members appreciate the urgency of this matter, and have been most cooperative, but we will have to stick with it tomorrow. We will now adjourn until tomorrow at 11 o'clock.

Mr. TUCKER: Where will we meet?

The CHAIRMAN: We will meet in this same room.

EVIDENCE

March 2, 1954

11:00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum.

Mr. D. B. Mansur, President, Central Mortgage and Housing Corporation, recalled:

The CHAIRMAN: The minister of Public Works is again with us today. I shall direct his attention to some of the matters that were left in abeyance. The first one is in connection with clause 2, subclause (23).

“Limited dividend housing company”.

(23) “limited-dividend housing company” means a company incorporated to construct, hold and manage a low-rental housing project, the dividends payable by which are limited by the terms of its charter or instrument of incorporation to five per cent per annum or less;

You recall there was suggested an amendment to that section, which was incorporated in our minutes of yesterday as Appendix “B”. All of you have copies of the suggested amendment from The Cooperative Union of Canada and the minister is prepared to make a statement on the suggested amendment.

Hon. Mr. WINTERS: Well, Mr. Chairman, first of all, since this is my first opportunity to speak in the committee, I would like to thank you and the members of the committee and all the witnesses who have appeared before the committee for the very splendid job that has been done. This, in my opinion, is a very important Act and we have been faced with the necessity of having it enacted at the earliest possible date so that the legislation can become effective for this year’s building season.

I know, and I think the country is pretty well aware too that you gentlemen have worked longer than normal committee hours of sitting, and I think that in itself will give a pretty good indication of the urgency which everybody attaches to the matter of housing. I just wanted to take this opportunity of expressing my appreciation to you, Mr. Chairman, and to the members of the committee and to all the witnesses who have appeared here.

This question of whether or not the provisions of the limited dividend housing section should apply to cooperatives, arises out of the resolution, submitted by the Cooperative Union of Canada. It is the same question that the cooperatives have had before us on a number of occasions. We have indicated the essential difference between the two types of projects that are envisaged by the cooperative provisions of Part I and the limited dividend provisions of part II. I might elaborate as follows:—

1. The Limited Dividend provisions of the Act contemplate rental accommodation for families of low income and do not envisage the financing of housing units which have elements of home ownership.

2. Cooperative housing associations which continue as cooperatives after the dwellings are complete give security of tenure to their members notwithstanding income level. This is in direct conflict with the spirit

and intent of the Limited Dividend provisions of the National Housing Act, which are aimed at families of low income with certain aspects of welfare and subsidy involved.

3. The major objection to qualifying cooperative housing associations under the Limited Dividend provisions is that by so doing a second and preferential class of home ownership would be established. Ten houses on one side of the street financed under the ordinary home ownership provisions of the National Housing Act on a 5½ per cent basis with twenty year amortization would contain elements of discrimination should ten like houses be built on the other side of the street under usual cooperative principles, financed at 3¾ per cent with say a forty year amortization period.

But having said this, I would like to make it clear that if a cooperative housing association forms itself into a Limited Dividend company and fulfils all the conditions in the Limited Dividend provisions of the Act, then there is no reason why such housing should not be financed under clause 16 of Bill 102. Under such circumstances the occupants of the housing must be tenant families of low income. We do not believe that this condition would be fulfilled if the families occupying the houses financed under the Limited Dividend provisions of the Act had a beneficial interest by way of the ownership of the equity in the houses.

For these reasons the government has not felt and still does not feel that it can accept the amendment which proposes that cooperative housing associations, by definition, qualify as a Limited Dividend company and the government believes that activities under clause 16 of Bill 102 should be limited to groups who qualify under the provisions of the clause, whether they are cooperative associations or otherwise.

The CHAIRMAN: There was also a request for comment by the minister on the home improvement clause on page 31.

PART IV.

HOME IMPROVEMENT LOANS AND HOME EXTENSION LOANS.

Corporation to pay losses upon terms prescribed.

24. (1) The Corporation shall, subject to this section and sections 25 and 26, pay to a bank or to an approved instalment credit agency the amount of loss sustained by it as a result of a home improvement loan, or a home extension loan, if

- (a) the loan was made pursuant to an application in the form prescribed by regulation, signed by the borrower, stating the purpose for which the proceeds of the loan were to be expended;
- (b) the application stated that the borrower was the owner of the home in respect of which the loan was to be expended;
- (c) a responsible officer of the bank or of the approved instalment credit agency certified that he had scrutinized and checked the application for the loan with the care required of him by the bank or the agency in the conduct of its ordinary business;
- (d) in the case of a home improvement loan, the principal amount of the loan did not exceed two thousand five hundred dollars in the case of a one-family dwelling, or two thousand five hundred dollars for the first family housing unit and an additional twelve hundred and fifty dollars for every other family housing unit in the case of a multiple-family dwelling;

- (e) in the case of a home extension loan, the principal amount did not exceed thirty-seven hundred and fifty dollars for the first family housing unit, which was to be added to the existing home as a result of the expenditure of the loan and twelve hundred and fifty dollars for each additional family housing unit so to be added;
- (f) the loan was repayable in full by the terms thereof in not more than three years if the principal amount of the loan did not exceed, in the case of a home improvement loan, twelve hundred and fifty dollars for a one-family dwelling or for each family housing unit in a multiple-family dwelling or, in the case of a home extension loan, twelve hundred and fifty dollars for each family housing unit to be comprised within the multiple-family dwelling, and in not more than five years in the case of any other loan;
- (g) the loan was repayable by the terms thereof in monthly instalments;
- (h) the rate of interest on the loan did not exceed the rate prescribed by the Governor in Council as long as the borrower was not in default;
- (i) the bank or approved instalment credit agency received from the borrower and remitted to the Corporation at the time of the making of the loan an insurance fee equal to one per cent of the amount of the loan;
- (j) except as provided in paragraph (i), no fee, service charge or charge of any kind other than interest, was by the terms of the loan payable so long as the borrower was not in default;
- (k) in the case of a home extension loan, the plans and specifications of the additions or alterations to be financed by the loan were approved by or on behalf of the Corporation before the loan was made;
- (l) no security by way of endorsement (other than that of the husband or wife of the owner) or otherwise was taken if the loan was made to an owner who occupied a one-family dwelling in respect of which the loan was to be expended so long as the borrower was not in default or except as provided by regulation in any other case; and
- (m) the loan was made on such terms and in accordance with such conditions in addition to those specified in the preceding paragraphs as may be prescribed by the regulations.

Termination of operation of this section by notice.

(2) The Corporation may, with the approval of the Governor in Council, by notice to a bank or an approved instalment credit agency, terminate the operation of this section in respect of home improvement loans or home extension loans, such termination to be effective after a time set out in the notice but not earlier than at least twenty-four hours after receipt of the notice at the head office of the bank or agency, and the Corporation is not liable under this Part to make any payment to the bank or agency in respect of any of such loans made after that time; but termination under this section does not relieve the Corporation of any liability imposed on it under this Part, in respect of a home improvement loan or home extension loan made by the bank or agency before the time of termination.

Notice only operative as to specified loans.

(3) A notice given by the Corporation under subsection (2) may terminate the operation of this section in respect only of home improvement loans or in respect only of home extension loans or in respect of any class thereof, as may be specified in the notice.

Mr. FLEMING: I was asking about the matter of the proclamation of Part IV in order to bring it into effect. It has been on the statute books for a long time. The bringing of it into effect is a matter of policy and for that reason I think we decided to ask the minister if he would make a statement.

Mr. JOHNSTON: I would like to ask the minister a question or two. I can see the difficulty that some of those people in the co-operatives are facing and I think it is a difficulty which we must recognize here. I understand perfectly well the minister's view in regard to letting co-operatives enter into this type of housing where they will get some benefits which other people will not get under the ordinary sections. But it seems to me that if an association or group of people wants to participate in this type of housing because of very low incomes, possibly there could be some arrangement made in the definition of co-operatives which would permit them to do so. I have in mind the intention we have, namely that people can form themselves into co-operatives so that if they have an income of less than \$5,000 a year they would be able to take advantage of this section of the Act and get houses built which would ordinarily cost over \$10,000. They would be able to get them, let us say, for \$6,000 with their own assistance under the co-operative method. If we put a limit on their income that might be of assistance to them. And I can see right away that the minister would say that if everybody who had an income, let us say, of \$5,000 or less would be able to get a house built cheaper than those who did not, then they would desire going into a co-operative arrangement for that purpose.

But on the other hand, if we are endeavouring to build houses for people to give them accommodation that they need, it does seem to me that people, let us say, with an income of \$5,000 should be able to avail themselves of this low price method of building a house. Would there be too much objection to that, Mr. Minister? Would there be too much objection to setting an income limit on these new co-operatives so that they could participate in that way?

Hon. Mr. WINTERS: Mr. Johnston, you know that the government is very favourably disposed towards the co-operative effort.

Mr. JOHNSTON: Yes.

Hon. Mr. WINTERS: And that this Act was changed, was it not, Mr. Mansur, two years ago?

The WITNESS: Yes.

Hon. Mr. WINTERS: The Act was changed two years ago in order to define more clearly the type of co-operatives that could qualify, so as to open it up and make it more convenient for co-operatives. And as I said a few moments ago if co-operatives can qualify as limited dividend companies, then they will be eligible for the benefits of the limited dividend section.

Mr. JOHNSTON: On that point, if they so qualify under this section as a limited dividend corporation, then none of those who formed the co-operative could occupy the houses, regardless of their income. They must rent them.

Hon. Mr. WINTERS: They must be rented accommodation.

Mr. JOHNSTON: Yes.

Hon. Mr. WINTERS: That is envisaged under the limited dividend section of the Act. If the co-operative is willing to limit its dividends and comply with the other provisions of clause 16 which are there and it is in fact a limited dividend company, it can qualify for a loan.

Mr. JOHNSTON: It limits anyone who forms part of the co-operative from participating, does it not?

Hon. Mr. WINTERS: In effect it does.

Mr. JOHNSTON: But it prevents the man who formed a part of the co-operative from getting benefits under this.

Hon. Mr. WINTERS: If they enter the co-operative simply to build houses, and to own them on an ownership basis, provision is made for that under Part I. If they wish to build the houses for home ownership, they will be taken care of under the home ownership section of the Act.

Mr. JOHNSTON: They would be preferred class. But it does seem to me that if the purpose of the whole Act is to build houses, then we should be able to permit people with low incomes and people earning as much as \$5,000—which is not a very handsome income in these days—we should be able in some way to allow those people to form co-operatives in order to assist themselves in getting houses built and especially in saving about \$4,000 a unit which is a very considerable saving. I do not know what the adjustments or amendments would have to be to the section to allow them to do that, but it does seem to me that when people form a co-operative they should be able to derive some personal benefit from it. The suggestion you make would prevent them because those who form co-operatives could not become tenants.

The CHAIRMAN: Tenants?

Mr. JOHNSTON: No. They have to rent it.

The CHAIRMAN: They could not be owners.

Mr. QUELCH: Mr. Chairman, I cannot see why the proposed amendment should not be accepted and then place the onus upon the co-operative to fulfil the terms of clause 16. The onus would be on them to qualify under clause 16.

Hon. Mr. WINTERS: You do not need a clause to do that.

Mr. QUELCH: What would be the opposition to including cooperative housing associations in our clause 23?

Hon. Mr. WINTERS: The definition contained in the Bill is sufficiently broad to include cooperative housing associations and therefore is not necessary.

Mr. QUELCH: There would be no objection to their coming in under clause 16 provided they meet the terms of that clause?

Hon. Mr. WINTERS: That is right.

Mr. CAMERON: Would there be any qualification with regard to the length of a lease? Suppose they decide to qualify under the limited dividend section and rent their houses rather than own them. Would there be any objection to a really long-term lease?

The WITNESS: I think the answer is that the term of the lease to the family would only run for the period that the family continued to qualify as a family of low income.

Mr. QUELCH: It would safeguard or take care of those people with low fixed incomes such as pensioners who would not be expecting any increase.

The CHAIRMAN: They are qualified under the Act now, as people of low income.

Mr. QUELCH: They could form themselves into a cooperative. Would they qualify as a limited dividend company?

Hon. Mr. WINTERS: There are a number of companies, for example, who qualified under the limited dividend section of the Act very successfully in some parts of Canada where it is recognized that this element should receive a subsidy from the provincial government. The municipalities also are making contributions.

Mr. QUELCH: This clause we are discussing does not prevent them coming in, does it?

Hon. Mr. WINTERS: No.

Mr. TUCKER: If a cooperative was set up whereby they were going to do a lot of work themselves in building houses, and they agreed that if any one of them got out of the low income group that there was a clause with respect to that, that they would turn over to the cooperative the houses they were in and give up their leases, and that they would be compensated for what they had themselves contributed in the way of building those particular houses or the houses in the group; in other words, that would encourage them to go together to build. And if they no longer qualify as low income tenants, that the cooperative would buy them out with respect to any equity which they had so as to rent to somebody else. I take it there would be nothing in the Act to prevent an arrangement such as that, or a contract being made such as that by a cooperative with the corporation. I do not see why there would be any objection to that.

Hon. Mr. WINTERS: There is no objection, is there?

The WITNESS: I think the real point at issue is that clause 16 does not contemplate a lower interest rate for people who have practically all the benefits of home ownership. Anything short of that, I think, could be arranged under clause 16.

Mr. TUCKER: If a man desires to enter into a group with others to build group homes with the idea that he has got to give up his home the moment his income rises, then he has not got that right of home ownership?

The WITNESS: Quite, and in that case I believe it is possible that such an arrangement might qualify under clause 16.

Mr. TUCKER: And that would meet what the co-operatives had in mind.

The WITNESS: Yes. That is about what the minister said earlier; that if a co-operative fulfilled the conditions of the clause, there is no reason why they should not proceed under clause 16.

The CHAIRMAN: Does subclause 23 carry; without amendment?

Carried.

The CHAIRMAN: Does clause 2, as amended, carry?

Carried.

Mr. FLEMING: I wonder if the minister would care to make a statement about the proclamation, in respect to Part IV, page 31.

Hon. Mr. WINTERS: Mr. Chairman, this provision for home improvement has been on the statute books for some time and except in particular areas such as Kamsack, Saskatchewan, and Yellow Knife in the Northwest Territories where there was good and sufficient reason why it should be proclaimed, this part of the Act has not been proclaimed generally for a variety of reasons.

At one time it was felt that a shortage of materials was sufficient reason why the remaining materials should be diverted into new construction rather than the improvement of existing structures. Then there was the problem of credit. It was an attempt to divert credit from new construction. But whether or not those conditions exist now is something which must be considered in relation to this new bill. I would be inclined to think that those conditions are not now present, and that the only considerations we have before us are whether or not we should at this time be opening up this new form of lending money at a time when we are trying to concentrate on getting this new Act into operation and building as many new homes as possible. It would be my

suggestion, Mr. Chairman, that we should leave this part of the Act unproclaimed for, let us say, six months, nine months, or a year until we can ascertain our own feeling of the operations and see what effect they have on the available supply of loan money.

Mr. FLEMING: I take it then that it is the policy of the government to give preference to construction of new housing units over the improvement or extension of existing ones?

Hon. Mr. WINTERS: Well, at this time when money for both purposes is to come from the banks as well as from lending institutions, I think it would be a mistake to confuse the issue with this section, and at a time when we are trying to get the whole Act into operation. But I would hope that before very long the provisions of the Act would be operating smoothly and that then we would be able to proclaim the home improvement sections of the Act.

Mr. FLEMING: Part IV, of course, is all set up on the basis of loans from banks or approved instalment credit agencies. Has there been any consultation between the government and Central Mortgage and Housing Corporation on the one hand and the banks on the other, with a view to ascertaining what might be the results on available credit by bringing into effect this part of the Act?

Hon. Mr. WINTERS: There has been general discussion. I do not recall any specific discussion myself. Central Mortgage and Housing Corporation may have had some, but we have had discussions with the Bank of Canada and the Department of Finance and the subject has been covered generally in our discussions with the bank, but not specifically.

Mr. FLEMING: If I had thought of it at the time I might have asked the representative of the bank association specifically about this when he was before this committee. His brief did not touch on it.

The minister mentioned two things, one being the availability of credit and the other being the availability of materials. Dealing with materials, we had some testimony last week on behalf of the Canadian Construction Association indicating that there is a quite ample supply of building materials now. I am wondering to what extent that has been taken into consideration by the government in deciding to defer this proclamation of Part IV for an additional period?

Hon. Mr. WINTERS: I though I covered that. I said that as far as I was concerned the material situation is all right now.

Mr. FLEMING: So it is only a question now of the credit and letting the situation shake itself out?

Hon. Mr. WINTERS: Yes, it is a question of timing it with the general implementation of the Act.

The CHAIRMAN: In effect, what the minister has said is that he expects the banks and other lending institutions to concentrate on the bill in order to build homes rather than divert their energies for the present.

Mr. MACDONNELL: I have a question supplementary to that which Mr. Fleming has asked, and I would like to put it here. I assume that money spent on home improvement would in fact permit the continued use of dwellings which otherwise would be terrible. It comes as a surprise to me that this is to be delayed. This is my question: could those who have been in the home improvement loans business—and the banks have been doing a great deal of this—could they not give satisfactory evidence to show how far money goes which is used in improvements as against money which is used for construction, and might that not be very helpful in determining when this would be proclaimed?

Hon. Mr. WINTERS: Mr. Macdonnell, I for one would like to see the section proclaimed as early as possible. However, the point I am trying to make, and I hope the committee will think it is a wise one, is that it would be a mistake to muddy the waters at this particular time with the home improvement loans which will also come to the banks at a time when we hope the banks will concentrate on loans for new homes. It is bringing two separate avenues of loans into effect at the same time. I would like to see us concentrate on the other.

Mr. MACDONNELL: I have one final observation to make. If \$10,000 could remodel and improve 5 houses, keeping them in service, as against building one new home, I would think that would relieve the housing situation considerably, and I would like to see that section getting under way as soon as possible.

Mr. QUELCH: I cannot see where it muddies the waters because we have already done that by bringing in the Farm Improvement Loans Act which is used for improving farm houses.

The CHAIRMAN: That Act was passed before this.

Mr. QUELCH: We have a great many people living in the country who are not farmers, whose houses although not necessarily derelict, do not have modern conveniences. Under this section, the houses can be electrically equipped, plumbing can be put in, according to modern standards. For that reason I should think it would be a very fine thing to bring it in because the Housing Act does not seem to do very much in the rural areas at the present time, and this would provide a method for modernizing houses in the rural areas.

Hon. Mr. WINTERS: Mr. Quelch, it is a matter of timing, as I said before. I would not like to do anything that would have the effect of retarding the general implementation of the Act. We are concentrating now on these loans for new accommodation.

Mr. FLEMING: It is a fear of limited participation of bank credit, is it not?

Mr. NOSEWORTHY: Has the minister received a resolution recently adopted by the Toronto city council asking for the proclamation of this part of the Act?

Hon. Mr. WINTERS: Yes, there has been one, Mr. Noseworthy.

Mr. NOSEWORTHY: Just why has this section not been proclaimed in Ontario?

The CHAIRMAN: The minister has already indicated why it was not proclaimed. First because there was a shortage of material, and second because there appeared to be an undue extension of credit.

Mr. NOSEWORTHY: There has not been a shortage of material.

The CHAIRMAN: The minister now says there is no longer a shortage of material, and that it is a question of timing. At the moment he would like the banks and lending institutions to concentrate on the bill as it relates to new accommodation. It seems to be a worthy objective.

Mr. MACDONNELL: I think there has been far too much talk about water. I think if the minister would look again he would see it is not muddy, but clear. I leave you with that thought.

The CHAIRMAN: Turning now to clause 4 which concerns interest rates—
G. in C. may prescribe interest.

4. (1) Subject to subsection (2), the Governor in Council may by regulation prescribe the maximum rate of interest payable by a borrower in respect of a loan made under this Act.

Maximum interest.

(2) The rate of interest prescribed under subsection (1) shall not exceed the interest rate on long term Government bonds

(a) by more than two and one-quarter per cent in respect of loans made under Part I;

(b) by more than two and one-quarter per cent in respect of loans made under section 15;

(c) by more than one-half of one per cent in respect of loans made under section 16; and

(d) by more than one and one-half per cent in respect of loans made under section 17.

"Interest rate on long term Government bonds" defined.

(3) In this section "interest rate on long term Government bonds" means the rate of interest return that would be yielded in the market by Government of Canada bonds that, at the time the maximum rate of interest is prescribed under subsection (1), would mature in twenty years, such return to be determined by the Governor in Council on the basis of the yields of the most comparable issues of Government of Canada bonds outstanding in the market.

I think some members of the committee were interested in this clause.

Mr. TUCKER: I appreciate what the minister has said, and I would also endorse what Mr. Quelch said, that as soon as this part of the Act is enforced it will enable the work to begin with regard to moving houses into the smaller urban centres and fixing them up, and this will make a real contribution to the solving of the shortage of housing, so I hope it will proclaimed as soon as possible.

The CHAIRMAN: I think we all wish that, and the minister knows it. What about interest rates?

Mr. FLEMING: I asked if section 4 might be allowed to stand in the hope the minister would be here today and prepared to make some statement on the matter of interest. I think it is perfectly clear that the interest rate is going to be a matter of high importance. One of the stated objectives of the bill is to reduce the down payment required and thereby bring it within the power of persons who are not now financially qualified for loans under Part I of the Housing Act to qualify for insured loans under the new bill. It is quite apparent, however, that if there is going to be a significant increase in the rate of interest that the carrying charges under the loan made under the bill are going to be increased to the point where some of the stated purposes of the bill will be largely nullified.

We have had evidence that at the present time the effective rate is $5\frac{1}{4}$ per cent because the government, on its one-quarter of the joint loan, is taking a rate of $3\frac{3}{4}$ per cent, and the lending institution on its three quarter share is receiving $5\frac{3}{4}$ per cent. It was testified before us that if that were to be the rate, undoubtedly there would be a substantial amount of investment funds directed into the mortgage field under the bill. A rate of $5\frac{3}{4}$ per cent would mean an increase of $\frac{1}{2}$ of 1 per cent under the present effective rate.

You have cautioned us, Mr. Chairman, against basing any calculations on the assumed rate of $5\frac{3}{4}$ per cent, but we have not any other figure to go by. We do know that is the rate the lending institutions are receiving today. There was some testimony from Mr. Towers that in the past several months the rate of return on government bonds has gone down a trifle.

Now, I want to make it perfectly clear, so far as my own view is concerned I do not suggest for a minute there should be a fixed rate stated in the Act. I think we must accept the fact that there will be fluctuations in the rate. We are not legislating for today or for the next two or three months. This legislation is going to be here for some time, and there will have to be some means provided by the Act for adjusting the rate to market conditions, the supply of mortgage money and the demand. Therefore, I do not quarrel, fundamentally with the way provided for adjusting the rate. I do think, Mr. Chairman, that we can only assess the practicability of this bill and its value in relation to the stated purposes if we have some idea of what the rate is going to be presently. Now, the minister may say that can only be determined after the bill is passed and brought into effect, but, Mr. Chairman, we are told that time is precious and if this bill becomes law next week, I have no doubt at all that the government will be prepared to set the rate probably within a day or two of the bill receiving the royal assent.

Now, the minister, under the circumstances, Mr. Chairman, I think should give some indication to the committee as to what is at least the approximate rate in contemplation to be set when the bill comes into effect?

Hon. Mr. WINTERS: Well, Mr. Chairman, my position is no different from what it was when the resolution was before the House, and later when the bill was in second reading. There is no statute and therefore no regulations can be set concerning something that does not exist, and I could not say what the interest rate would be even if I knew, because it must be established by the Governor in Council. The Governor in Council has not been consulted, and anything I might say would be a pure guess or speculation, the same as any other member of the committee. During the second reading stage of the bill, I said that if the rate were 5 per cent we probably would not have any operations under the Act at all because there would be no mortgage money. If the rate were 6 per cent, I think the borrowing public would think it would be far too high and we would probably have very limited operations under the Act.

Clause 2, subclause (a), Part I, of the Act, says: The interest rate shall not be more than $2\frac{1}{4}$ per cent more than the interest rate on long-term government bonds.

At that time, the interest rate on long-term governments was pretty close to $3\frac{3}{4}$ per cent, so the maximum could have been close to 6 per cent under the Act. During the intervening period that rate has dropped and I understand today it is about 3.51 per cent, which means the maximum under the terms of the Act would be 5.76 per cent, so we are that much better off than if we had attempted to fix the interest rate when this bill first came before the House. The interest rate, I understand, is still declining slowly, and it may be that the presumable maximum under the Act will be less than 5.76 per cent when the time comes to proclaim the Act. It is the government's intention to have the lowest interest rate to attract on the market the required amount of mortgage money, and at the same time not impose an unnecessarily great burden, interest-wise, on borrowers.

Mr. MACDONNELL: I think we have to wait for further operations of the Bank of Canada on the loan market.

Mr. JOHNSTON: Mr. Chairman, may I ask the minister this question? Does this mean, if there is a group of houses started tomorrow, and the interest rate is fixed at say 5.76 per cent, and in another month another group started and the interest rates moved down again, would the interest rates on these loans then be less?

Hon. Mr. WINTERS: No, the interest rate on those would continue at the term as set forth in the contract.

Mr. JOHNSTON: The ones started immediately ? I meant the ones started later on?

Hon. Mr. WINTERS: It depends on what the interest rate is at the time of the contract.

Mr. JOHNSTON: There is going to be a large number of houses built over a year. You say that the interest rate would be different. One group might start building houses when the interest rate was 5.76 per cent. Another group might start a little later on when the interest rate dropped to let us say 5.5 per cent.

Hon. Mr. WINTERS: I would not think there would be any rapid change in the interest rate set under the regulations but it is equally true there are a great many different interest rates prevailing in the country today on houses. We had to change the interest rate I think twice in the last few years. Conventional rates as you know are quite different, but we do try to set a rate that will have some likelihood of a long-term duration when we set it.

Mr. JOHNSTON: I wondered what the result would be if the interest rate is proclaimed at 5.76 per cent to start with? A great many people possibly would say, "I do not think I will start to build now, I will wait for a few months, or perhaps a year until the interest rate comes down again."

Hon. Mr. WINTERS: That is a decision they would have to make; but as I said, we would endeavour to set an interest rate that could be looked upon as being a pretty long-term interest rate.

Mr. JOHNSTON: Why don't you make it 5½ per cent, anyway?

The CHAIRMAN: That is a first class suggestion!

Mr. TUCKER: One thing I would like to ask the minister—I understand that they could administer these loans for .8 per cent, or something of the sort, and I take it the extra amount is to cover the cost of possible loss, and so on. If the loans are insured, even although they are not satisfied with the scope of the insurance, I wonder why it is not possible to have that amount 2 per cent instead of 2½ per cent. There must be some reason for having 2½ per cent instead of 2 per cent? It used to be that you could administer the loans and carry the risk of loss and everything for 2 per cent. Now we are introducing some measure of insurance and providing for 2½ per cent. What is the reason for that?

Hon. Mr. WINTERS: Well, it was just to make sure we could go high enough to attract money on the market if we needed to. At the time this Act was drafted, the interest rate to lending institutions was, and still is under the terms of the present Act, 5¾ per cent. The interest rate on long-term government bonds was already starting to decline. It was 3¾ per cent, but dropping slightly, and we felt we had to put enough tolerance in there which, when added to the long-term government bonds, would give us the ceiling we might have to have in order to induce money in the market. I would hope we would not have to go that high. 5.76 per cent is purely a mathematical calculation and a matter of interpretation, and I would not like to have it misconstrued.

Mr. CAMERON: I wonder if I could ask the minister a question, Mr. Chairman. I understood you to say that you endeavoured to set the interest rate sufficiently high to attract money in the market, but not so high as to become a burden to the borrower. The only rate you are setting is 2½ per cent, the rest depends on the rate of government bonds?

Hon. Mr. WINTERS: That is right, sir.

Mr. CAMERON: Are we to assume then that the policy of the government will be that the Bank of Canada should hold government bonds at about the present rate of yield?

Hon. Mr. WINTERS: That is beyond my scope as a witness here this morning.

Mr. CAMERON: But you told us you were setting an interest rate and unless you can tell us how you are going to set that rate, you are not setting the interest rate at all?

Hon. Mr. WINTERS: We are going to set an interest rate which will not be more than long-term governments at the time the interest rate is set plus $2\frac{1}{4}$ per cent.

Mr. CAMERON: That is a completely unknown factor. You are not setting anything. You are simply setting $2\frac{1}{4}$ per cent plus some unknown factor.

Hon. Mr. WINTERS: There is no known factor at the present time.

Mr. HELLYER: No matter how you look at it, it is a matter of considerable interest.

The CHAIRMAN: Mr. Cannon.

Mr. CANNON: Is it not a fact that fluctuations in the interest rate mentioned a minute ago by one of the members, would be a normal business risk, just as fluctuations in the price of material or labour?

Hon. Mr. WINTERS: I think that is a fair statement.

Mr. QUELCH: I think it is quite evident that people in the low income groups will not be able to build a house costing \$10,000 until the interest rate is below $3\frac{1}{2}$ per cent. Is the government giving any consideration to bringing in legislation to make it possible for people in the low income groups to build houses?

Hon. Mr. WINTERS: Do you have in mind housing accommodation as opposed to building houses for home ownership?

Mr. QUELCH: I mean to build homes, because we already have the other.

Hon. Mr. WINTERS: Yes, in clause 36, plus the limited dividends and other sections; but we have no plan at the present moment to subsidize loans for home ownership through the provisions of this Act.

Mr. QUELCH: I think we did have such legislation some years ago. I forget the exact name of it.

Hon. Mr. WINTERS: I think it was the Municipal Improvements Assistance Act.

Mr. QUELCH: Yes, under which money was made available at 2 per cent. Has any consideration be given to making money available at a low rate of interest?

Hon. Mr. WINTERS: That Act is administered by the Department of Finance and I have no knowledge that they are contemplating any such action.

The CHAIRMAN: You had better save that question until later, Mr. Quelch. A witness will be before us to answer that question.

Mr. FRASER (*Peterborough*): It says "interest rate on long-term government bonds..." I think that might be misinterpreted to mean yield, because at the present time some of those bonds yield more than 3 per cent. Do you see what I mean?

Mr. HUNTER: That would depend on the market, would it not?

Hon. Mr. WINTERS: I think there is a table published by the Central Bank which sets forth what they have in mind beyond any doubt.

Mr. TUCKER: Is it not defined in subclause (3) anyway?

Hon. Mr. WINTERS: It is published by the Bank of Canada and it is to be found in their Statistical Summary.

Mr. FRASER (*Peterborough*): Another thing came to my attention when the labour people were here the other day. One of them said that he attended one of those schools that they go to before they build their houses.

He said that they attend those schools for six months. I do not know who the person was who was telling them about the details of the new Act. But a question was asked in regard to the 2 per cent insurance, and it was thought that the 2 per cent would be added to the interest rate. The individual being questioned said that he could not answer that. Of course it is not in addition to the interest rate. It is part of it, in the mortgage. But there is a misunderstanding in some sections of the country on that point and I simply bring it to your attention so it may be corrected. It was asked at that meeting: would the interest which was 5 per cent, be added to the 2 per cent, making a total of 7 per cent? It was absolutely foolish. But that was the idea that they got in one of the schools.

The CHAIRMAN: I think you have clarified the matter by your remarks, Mr. Fraser. Now, Mr. Noseworthy.

Mr. NOSEWORTHY: Mr. Chairman, I wonder if the minister will tell us if the government is giving consideration to the possibility of stabilization the interest rate by means of a stabilizing fund or a subsidy fund, in view of the fact that the government speaks of subsidizing the interest rates with their loan projects, to give us a fixed interest rate that would be uniform and below the possible $5\frac{1}{2}$ per cent or 6 per cent, or even 5 per cent, or what it is now?

Hon. Mr. WINTERS: That would be a matter of financial policy and I think you would want to discuss it when the Bank of Canada Act is before the committee.

The CHAIRMAN: There will be high priority to ask that question when they come here.

Mr. MACDONNELL: I think this is one of the occasions for me to become offensive about the regulations but I do not propose to become offensive concerning them this morning. The minister has tried to make us believe that nothing has really happened since the second reading of the bill. But I suggest that quite a lot has happened. We have been working on it for two weeks.

Hon. Mr. WINTERS: I do not think I said anything like that. I do not think I said that nothing has happened. In fact, I began my remarks this morning by complimenting the committee on the very good work that it has done.

Mr. MACDONNELL: Did you not say that nothing has happened with regard to the availability of the regulations? You said there was no statute yet. I am not going to let the committee think this morning that we should accept that decision. When it comes to the question of the details of the guarantee I can add five and two or four and two quite well for myself. I do not think we should be treated just like a lot of children. I think there should be some means by which we could get what is to be the essence of the guarantee that we are going to be asked to vote for. And as far as that is concerned, I am not going to say anything more about it at the moment.

Mr. FLEMING: I have one or two things to say. It is clear from the minister's statement, and in view of the fact that subclause 2 provides for only a maximum, namely $2\frac{1}{4}$ per cent, to be set by the statute, that the government will have regard to the facts mentioned in the evidence by the witnesses who have appeared before the committee. And it is also clear from the minister's statement that the Governor in Council is not likely to adjust the rate frequently to meet minor fluctuations in the mortgage money market. Will the minister just enlarge on that point for us? There is a problem relating to it. There could be variations in the interest rate in different parts of this wide country. The rate which will be set by the Governor in Council

presumably will be in respect to operations from coast to coast. There will not be any variations permitted under the scheme of clause 4, as I understand it? The point about minor fluctuations raises a question that was touched on by Mr. Quelch, that is, whether an individual who is contemplating building a house may hope that through some operations on the money market by the Bank of Canada the prevalent interest rate will be perhaps reduced somewhat. And as Mr. Cannon has pointed out that is a factor which occurs in any conventional loan. I wonder if the minister would be good enough to enlarge on this matter of the factors or considerations which contribute to setting a rate which will be effective throughout the whole country and one which will be realistic in taking into account the inevitable law of supply and demand?

Hon. Mr. WINTERS: I do not think I can enlarge on it. We will endeavour to set a realistic interest rate at the lowest rate, having regard to the borrower and having regard to an interest rate which will encourage mortgage money coming on the market. We have got to give people some assurance of stability and we have got to give them some reason to expect that an interest rate which we would set will not be changed the next day or the next week. We will try to keep those arrangements in mind when setting the interest rate.

Mr. FLEMING: I could see that it would not be so difficult to adjust the interest rate to the market after you have had, let us say, six months' experience with the scheme. But if you are going to proclaim the act next week, if this bill is to receive Royal Assent next week, what then?

Hon. Mr. WINTERS: We will set it and we will have in mind the facts which the committee has discussed during the course of its hearings and we will set it very quickly after this Act becomes law. May I just say one word to Mr. Macdonell having to do with the regulations. The only two points that occur to me at the moment which have not been raised during the course of the discussions are these: have one interest rate for the reasons that have been mentioned, and a top level of loan. I think there is a pretty clear understanding of how much that will be. And if there are any other points that may possibly occur in the regulations and which have not been brought out in the committee, it is simply because questions have not been asked. Mr. Mansur has been quite ready to answer such questions that have been asked except with respect to what the interest rate will be and we have not as yet made a decision on what the top level will be.

Mr. APPLEWHAITE: How big a change in the interest rate for long-term credit would be regarded on the basis for a change in the basic rate under these regulations?

Hon. Mr. WINTERS: That will be very difficult to answer. It would depend on the flow of money, and on the level of production of houses. The recent changes in the Act were made in steps of $\frac{1}{4}$ of 1 per cent. Whether we would have in practice a lower increment than that, remains to be seen in the light of developing conditions.

The CHAIRMAN: Now, Mr. Quelch.

Mr. QUELCH: Mr. Chairman, one half of the question which I proposed to ask has already been answered. But to continue: if the rate of interest set is based on the rate of interest on long-term bonds plus $2\frac{1}{4}$ per cent, then if the rate of interest on long-term bonds falls, automatically your interest rate would have to fall. Otherwise you would be setting a maximum in respect to this section.

Hon. Mr. WINTERS: If the interest rate should go down, then as a consequence, automatically, our interest rate would fall.

Mr. QUELCH: Otherwise you would have no discretion.

Hon. Mr. WINTERS: That is right.

The CHAIRMAN: That was one of the clauses which stood.

Mr. FLEMING: One last comment on the minister's statement about the availability of information through Mr. Mansur, on what there might be in the new regulations. I do not think that it has ever been said to us that we could ask questions on what would be in the new regulations. However, if that opportunity is now open to us, I will ask right now when we are to have the forms which are going to be prescribed for use under the regulations?

Hon. Mr. WINTERS: What I meant was this: Obviously the Act must be passed. The regulations must all be based upon the various sections of the Act. There has been every opportunity for the members to ask any questions about what might possibly occur under any clause of this bill which is now before us. But we cannot regulate except in connection with provisions of the Act.

Mr. FLEMING: The power as to making regulations is contained in the bill. It must be. But we have a considerable interest in this committee as to what form the regulations are going to take, because there is so much of the mortgage scheme which will be left to the type of regulations. After all, the bill itself is in some ways just a general enabling bill. And when you seek for the details of the insurance and the guarantee available, they will appear very largely in the contents of the forms. I am interested very much in the minister's comment, and I can tell him right now that I should like to see the forms which are going to be used, because I know the contents of them are very, very important.

Mr. MACDONNELL: I was greatly surprised at the minister's statement, and I am very glad of the question that Mr. Fleming has asked.

The CHAIRMAN: Mr. Macdonnell, I invited questions on the old regulations at the last meeting and at the meeting before that when Mr. Mansur was brought back as a witness. The old regulations and those having to do with defence workers' housing loan regulations were made available to the committee on February 22.

Mr. MACDONNELL: The old regulations?

The CHAIRMAN: Yes, and the committee was told that members might ask questions on them. I think that is as much as you could possibly expect. We do not have the new regulations but we do have the old ones. They probably will be in the same pattern.

Mr. MACDONNELL: Are the new regulations ready yet?

The CHAIRMAN: Not to my knowledge. As I understand it they will not be available until such time as the bill has passed.

Mr. MACDONNELL: I mean in a draft form?

The CHAIRMAN: I do not know if the new regulations are ready in draft form, but I think it would be inappropriate to deal with them in draft form.

Mr. FLEMING: Perhaps your objection does not extend to the forms. I am sure that the forms must be set up by now. Might we not be told what the present situation is in regard to the forms that will be used?

Hon. Mr. WINTERS: I would be glad to tell you, but we have not got them in detail as yet because they are still in the process of consultation. I would have no objection to anybody asking any question that may occur to him as to what might be a specific question, or as to points that are of concern to members.

Mr. MACDONNELL: How can we intelligently ask specific questions until we receive those forms?

Hon. Mr. WINTERS: You know what the regulations were. Why not use them as a starting point?

Mr. FLEMING: I do not think that any regulations under the present Act would be of the slightest help to us as to what may be contained in the new regulations under the new bill. Reference would be to an entirely new aspect or scheme under the bill which is now before us.

Hon. Mr. WINTERS: I am pretty sure that the committee has already covered most of the points in their questioning.

Mr. FLEMING: The point in my mind is what bearing the regulations will have on the insurance scheme. The insurance scheme in this bill is a major departure from the present law, and without some knowledge of the contents of those forms, of what is involved in it, more than the committee now has, it seems to me that we are, in a very important respect, simply legislating largely in the dark.

Mr. MACDONNELL: I can see the minister's difficulty in regard to the interest rate; but if those forms are ready, and I presume they must be, then I can see no reason why we should not be allowed to see them, in whatever form they may be, because otherwise we are being kept in the dark unnecessarily.

Mr. CRESTOHL: I should like to put a question, Mr. Chairman.

The CHAIRMAN: Very well, Mr. Crestohl.

Mr. CRESTOHL: In our desire to see a rate of interest set which would be nationally uniform, does it not strike you that there is a bit of imbalance in relation to the $2\frac{1}{2}$ per cent repaid by the Province of Quebec on loans made in the offices in that province? It strikes me that the borrowers in the Province of Quebec will be getting a very low rate at 2 or $2\frac{1}{2}$ per cent less than the rest of the country?

Mr. McILRAITH: I think they should sell their homes and move over to Ontario because of the difficulty they have in having to pay double motor car licenses. I think we should make it interesting enough for them to come here to live where they may get cheaper houses.

Hon. Mr. WINTERS: I think you have answered your own question, Mr. Crestohl.

Mr. CRESTOHL: In what way?

Hon. Mr. WINTERS: You said there was a differential in that there was something in the nature of a write down of the interest rate and that there is in fact such a differential as compared with those people who have to pay the going rate.

Mr. ADAMSON: I think we are like a horse race. The horses are at the post and we know how much money is bet on those horses. But we will not know how much it is possible to pay on those horses until the race has been run. We know within limits what the rate will be, but we do not know for certain until it is made official.

The CHAIRMAN: Gentlemen, when we reach clause 12 which deals with the regulations we will then invite questions. The forms are not yet ready. There was an undertaking given to Mr. Pouliot at one of the earlier meetings to table them when they are ready. Clause 12 deals with regulations and Mr. Mansur will be here and prepared to answer questions.

Mr. FRASER (*Peterborough*): Have you any idea when they will be ready?

The CHAIRMAN: They will be ready after the bill is passed. Mr. Mansur will be ready to answer questions on the regulations later today. Does clause 4 carry?

Mr. NOSEWORTHY: I am not at all satisfied with respect to the answer about the possibility of a stabilized interest rate. You say it is national policy, and that it will be discussed under the Bank of Canada Act. But this may be a matter which concerns the housing bill. Is there any reason why the govern-

ment should not, by subsidizing the interest just as it is doing through the joint loan projects, give us a fixed interest rate that would be uniform and would possibly be below $5\frac{3}{4}$ per cent or 6 per cent or even $5\frac{1}{2}$ per cent or what it is now?

Hon. Mr. WINTERS: That would be possible, like many other things, but it is a matter of government policy which can only be announced after government decision has been reached.

Mr. NOSEWORTHY: What is the attitude of the minister himself?

Hon. Mr. WINTERS: My attitude is that we should get the maximum number of houses built with the tools given to us, and the tools are this bill which is before us at the moment.

Mr. NOSEWORTHY: Has the minister any information in the way of securing those tools?

The CHAIRMAN: Does clause 4 carry?

Carried

Mr. MACDONNELL: The minister indicated, I am sure sincerely, that he wanted us to have an opportunity to ask questions based on the regulations of past years. I think it is just idle to say to us that the new documents are not ready. They must be ready in a draft form. And I suggest that it is entirely in the spirit of what the minister said a few minutes ago: that we should have this new draft tabled so that we may ask questions on it. There may be things which are not the same in the new draft. Nevertheless, when we have it in our hands, we can see the new line along which questions should go. I do not think it is right for the minister or the chairman to refuse the draft to us so that we may ask questions on it. At the present time we are not in a position to ask intelligent questions without those forms.

Mr. HUNTER: You will get them with the new Act.

Mr. WOOD: I wonder if Mr. Macdonnell would like to suggest a lower interest rate than the $2\frac{1}{4}$ per cent which is suggested here?

Mr. HUFFMAN: Or what would he suggest?

Mr. MACDONNELL: I did not know that I was to be the witness here.

The CHAIRMAN: Gentlemen, does clause 4, as amended, carry?

Carried

Does clause 6, as amended, carry? Clause 6 with the new subclause 9 added thereto?

Carried

Does clause 7 with the amendment carry?

Carried.

Clause 8.

Conditions of insurance.

8. (1) A loan to a co-operative housing association is not insurable unless
 - (a) the instrument of incorporation of the co-operative housing association and its by-laws are approved by the Corporation;
 - (b) the Corporation is satisfied that
 - (i) in the case of a project that will continue to be owned and managed by the co-operative association after completion of construction, at least eighty per cent of the family housing units of the project will be occupied by members or shareholders of the co-operative association; or

- (ii) in the case of a project consisting of houses that on completion of construction are to be conveyed to members or shareholders of the association, at least eighty per cent of the members or shareholders will each own a house; and
- (c) in the first instance, repayment of the loan is secured by a first mortgage on all the family housing units in the project.

Co-operative housing project.

(2) When the construction of a co-operative housing project consisting of houses has reached a stage satisfactory to the Corporation and the co-operative association conveys a house in the project to a member or shareholder of the association, the first mortgage or other security may be discharged in respect of the house and a new mortgage or other security taken in favour of the approved lender from the member or shareholder in an amount equal to the portion of the loan made in respect of the house in the first instance, and such amount shall be deemed to be a loan to a home owner and is insurable.

Mr. FLEMING: We have a multitude of permutations and combinations here of various percentages. I wonder if the government considers it necessary that there should be so many of them, or that the bill needs to be so complicated with regard to these different rates in different situations? Has there been any difficulty under the present scheme with regard to a simpler rate, one that would not call for such a variety of rates under the new bill?

Hon. Mr. WINTERS: Except for the step from 70 per cent to 90 per cent, this is 90 per cent.

Mr. FLEMING: Yes.

Hon. Mr. WINTERS: And 70 per cent on the balance to the limit of the loan. The arrangement is the same as now exists under the National Housing Act, and although it may look complicated, nevertheless it is an endeavour to spell out in more detail just exactly what we have been doing and what will be done under this new arrangement where you have the amount of the lending value broken at \$8,000.

Mr. FLEMING: We are carrying forward the special provision which is made for the purchaser who is a defence worker, as defined on page 7. Has there been any difficulty in applying the definition? Has the experience been such as to indicate that there was any danger in lending up to 90 per cent on the approved lending value?

Hon. Mr. WINTERS: I think that it has worked quite well.

Mr. FLEMING: There has been no difficulty so far as the application is concerned?

Hon. Mr. WINTERS: There has been no difficulty, but there has been an arrangement in so far as defence workers' houses are concerned to withhold the payments and to repay them to Central Mortgage and Housing Corporation. It required that element of company participation.

Mr. FLEMING: Is it practical to apply that in other cases to employers who are either corporate or are well established in business.

Mr. ADAMSON: Is it a form of check-off?

The CHAIRMAN: Voluntary and irrevocable.

Mr. ADAMSON: It is neither. Mortgage interest would be paid voluntarily.

Hon. Mr. WINTERS: It is a check-off of the principal and interest.

Mr. ADAMSON: Could the minister say if there has been any occasion of houses coming back to the corporation from people who have left their employment, or who have moved or been discharged or died?

Hon. Mr. WINTERS: Mr. Mansur, I think, is in a better position to answer your question than I am.

The WITNESS: In the Toronto area approximately 10 per cent of the houses that were sold originally to defence workers have been resold by the original purchasers. In the Toronto area there have been no defaults of consequence. That applies, I think, to all areas in Canada. And I would guess that on the over-all national basis about 10 per cent of the units have been disposed of by the original purchasers.

By Mr. Adamson:

Q. And with respect to those houses which were sold by the original defence workers, is there any clause that makes it mandatory on them to sell those houses to another defence worker, or can they sell them to somebody else?—A. Contained in the mortgage deed there was a provision that the borrower did not have freedom of action with regard to non-defence workers until after one year. That provision was binding upon the original purchasers but it just did not work out too well. Let us say that a man was moved from Malton to Winnipeg. Although the provision is contained in the mortgage deed it is not enforced by us against the defence worker who was the original purchaser. And at the same time, if we were to re-write the mortgage deed, I think we would probably retain that clause so as to be able to deal with cases of collusion between the defence worker and thus prevent a civilian from having a house he was not intended to have. I think we would continue our present practice of not enforcing the limitation where there seemed to be a bona fide movement or other good reason for alienation of the rights of the original purchaser.

Q. It is in the regulations then?—A. Yes. In the regulations, Mr. Adamson. It provides that the mortgage shall contain a provision to the effect that in the event of a house ceasing to be occupied by the original certified defence worker or by another certified defence worker during the five-year period immediately following the date of the completion of the house, one-ninth of the original amount of the loan so advanced shall forthwith become due and payable. I was incorrect in my previous statement regarding one year, Mr. Adamson.

Q. And you have not enforced that?—A. No, because we have not had brought to our attention any deliberate attempts at collusion. If we found a deliberate attempt at collusion—if a certified defence worker sought to buy a house for or on behalf of a non-defence worker—we then would have no hesitation in calling one-ninth of the loan.

The CHAIRMAN: Clause 7, as amended: "Insurable loans"?

Carried.

Clause 8: "Conditions of insurance?"

Carried.

Clause 9:

Payments by Corporation upon conveyance of property

9. (1) Where an approved lender holding or administering an insured loan secured by mortgage acquires title to the mortgaged property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;

- (b) approved borrowers' charges made before and after the date of commencement of foreclosure proceedings or the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)
 - (i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or
 - (ii) for a period of six months, whichever is the shorter period;
- (d) where the default period in respect of any amount specified in paragraph (a) or (b) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount and on the amount specified in paragraph (c)
 - (i) for the period of such excess, or
 - (ii) for a period of twelve months, whichever is the shorter period, if immediately after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly, semi-annually or annually, the approved lender holding or administering the loan satisfied the Corporation that adequate steps were being taken in respect of the said account; and
- (e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation; less two per cent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account during the default period shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, and secondly to the amount owing on the mortgage account as principal, including borrowers' charges.

Conditions to payment

- (2) No payment shall be made under subsection (1) unless
- (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
- (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

Transfer of security

- (3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

Payment without conveyance in special cases

- (4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1), if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

You have in front of you a new, redrafted clause which was presented to you yesterday, as follows:

Insurance Settlement.

Payment by Corporation upon conveyance of property.

9. (1) Where an approved lender holding or administering an insured loan secured mortgage acquires title to the mortgage property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;
- (b) approved borrower's charges made before and after the date of commencement of foreclosure proceedings or the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)

(i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or

(ii) for a period of six months,
whichever is the shorter period;

- (d) where the default period in respect of any amount specified in paragraph (a), (b) or (c) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount

(i) for the period of such excess, or

(ii) for a period of twelve months,
whichever is the shorter period, if after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly, semi-annually or annually, the approved lender holding or administering the loan within the time prescribed by regulation notified the Corporation of such default and took such steps in respect of such account as were satisfactory to the Corporation; and

- (e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation; less two per cent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account when it was in default shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, secondly to borrowers' charges and thirdly to the principal owing on the mortgage account.

Conditions to payment.

(2) No payment shall be made under subsection (1) unless

- (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
- (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

Transfer of security.

(3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

Payment without conveyance in special cases.

(4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1) if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

Continuation of mortgage account.

(5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the Corporation.

Is this clause carried as re-drafted?

Mr. FLEMING: No. Can we deal with the amendments before we reach some wider questions?

The CHAIRMAN: Yes. This is clause 9.

Mr. FLEMING: We did not approve the amendments yesterday.

The CHAIRMAN: There is one amendment to the section.

(5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the corporation.

That was dealt with yesterday.

Mr. FLEMING: That is the last subclause. There were other amendments which we did not approve.

The CHAIRMAN: In this section?

Mr. FLEMING: Yes.

The CHAIRMAN: The whole clause was drafted.

Mr. FLEMING: Beginning at the bottom of page 4; we have not dealt with this yet.

The CHAIRMAN: That is quite right. Did you wish to ask a question concerning this?

Mr. FLEMING: I wish to ask questions about one or two of the amendments.

The CHAIRMAN: Gentlemen, we are dealing with the amendments at the bottom of page 4 of the technical amendments to Bill 102 copies of which you have.

Clause 9 (1): Page 11—in line 33, strike out “(a) or (b)” and substitute “(a), (b) or (c)”; in lines 35 and 36 strike out the words “and on the amount specified in paragraph (c)”; in line 39, strike out the word “immediately”; and in lines 46, 47 and 48, strike out the words “satisfied the Corporation that adequate steps were being taken in respect of the said account; and” and substitute “within the time prescribed by regulation notified the Corporation of such default and took such steps in respect of such account as were satisfactory to the Corporation; and”

Clause 9 (1): Page 12—in line 7, strike out the words “during the default period” and substitute the words “when it was in default”; in line 9, strike out the word “and” and add, after the word “charges” in line 11, “and thirdly to the principal owing on the mortgage account”.

Mr. Fleming wishes to ask questions now.

By Mr. Fleming:

Q. The first of these amendments is to clause 9 (1-d). You are adding the words: “Where the default, in respect of any amount specified in paragraphs (a), (b) or (c) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount (i) for the period of such excess, or, (ii) for a period of twelve months”, and so forth. I wonder if Mr. Mansur would enlarge on the reason for adding the excess indicated in paragraph (c) under the provision to clause (d).—A. As I indicated yesterday, Mr. Fleming, the changes which are suggested, and the change you just referred to, are being made to make it clear that when, after six months, and when the mortgage rate less 2 is applicable, that the mortgage interest rate less 2 is applied not only to the principal and the borrower’s charges, but also to the interest which is accumulated for six months at the original mortgage rate. In the bill, as originally drafted, we found that the wording did not permit the compounding at the lesser rate on the interest at the mortgage rate accumulated for the first six months, and the amendment gives effect to that understanding which I think was mentioned by the minister in his second reading speech on the provisions of the loss settlement.

Q. That is clear, I think, Mr. Chairman. There are two other points I would like to raise with regard to clause 9. To take a concrete case, the mortgage goes into default, we will say, for six months. That is to say, under the scheme of monthly payments there are six monthly defaults. The interest rate, let us say Mr. Chairman, with all proper reservations, at the moment is 5½ per cent. The arrears are then calculated for six months at 5½ per cent. If the default is permitted by a benevolent mortgagee to continue we will say for another year, there would be 12 more monthly defaults. The rate for the purpose of settlement with Central Mortgage and Housing Corporation under the guarantee will be 3½ per cent after the end of the 6 months?—A. Yes, the mortgage rate less 2.

Q. And that will be the applicable interest rate not only to the principal but to the interest in arrears for the first six months?—A. That is correct.

Q. But not to any interest accruing after the six months? In other words, there would not be any compounding at a later period? The compounding, so far as the interest is concerned, is limited to the interest for the first six months?—A. If we could take a case, Mr. Fleming, where the interest arrears for the first six months were \$100 and the mortgage account was, at the end of 6 months, principal plus \$100, then you would have \$6,100 owing on the mortgage account at the end of 6 months if the default continues. That \$6,100 would form the principal amount upon which interest for a further 6 months would be calculated at the mortgage rate less 2. If the default continued to the eighteenth month, the interest at mortgage rate less 2 for the period 12 months to 18 months would be calculated on the accumulation of the figure I mentioned earlier.

Q. Then in keeping with mortgage practice, you will “take a rest”, according to the expression in use, at the end of 12 months? That is to say, at the end of the second period of 6 months in default, do you further compound then for the second 6 months?—A. Yes, the sixth to the eighteenth month interest calculation would be interest at the lesser rate on the accumulation of interest for the first 6 months.

Q. Then, at the end of 18 months, suppose the benevolence of the mortgagee extends, we will say, to another 3 months, what happens to the interest for the further period of 3 months when it comes to Central Mortgage and Housing Corporation under the insurance?—A. We cut off at the end of 18 months.

Q. That is the extreme limit of indulgence?—A. That is correct.

Q. And I take it that that applies only in cases where the corporation has been notified of the default?—A. The clause provides that if the approved lender is to claim interest in excess of 3 months they must give us notification of the condition of the default at the end of 3 months.

Q. That is to say, after 3 months' default or after 9 months' default?—A. After 3 months default, Mr. Fleming. The approved lender must notify us that the mortgage account is in trouble, and notify us what steps they are taking, if they wish to claim interest for the default period, 6 to 18 months inclusive.

Q. Yes, but they do not have to notify you if they are going to be content to confine the default to 6 months?—A. No.

Q. I am not expecting you to lay down any hard and fast rules as to what you are going to do in these cases. The purpose of notification, I presume, is to enable you to say, if it impresses you as a case for doing so: We do not think this default should be allowed to continue. There is risk here to the security or this is not too dependable a mortgagor, therefore we are telling you now we are not going to allow any interest beyond the six months provided by the statute without permission.—A. Well, we would look at the cases that come in as we do at the present time under the joint loan procedure. There is no basic change, Mr. Fleming, in the routine, and we would come to an agreement with the approved lender as to the proper steps to be taken. It was felt that this provision for notification at the end of three months was necessary. The mortgage insurance fund requires some measure of protection against lenders who might be quite satisfied to lean on the fund rather than to take the normal steps which might be expected from any good lender.

Q. The other point, Mr. Chairman, relates to the matter of securing title and possession in order that the mortgagee may make claim for the insurance in the case of the insured loan. I have expressed before the concern I have about this because it is known, I think, to us all, and it was made perfectly clear in the evidence if there had been any doubt about it, that the mortgagee is not anxious to acquire the property. He is making an investment and he wants his money back at the guaranteed rate of interest. Mr. Atkinson, representing the Canadian Bankers Association, made it quite clear that the banks do not like the prospect of having to foreclose. That is a new role for them, as applied to homes, and it is not going to be a very popular thing to do. It is not going to be very good for public relations, as he put it. What have you in contemplation in this regard? Is the corporation going to insist in virtually all cases that the mortgagee be in a position to tender title and possession before meeting the guarantee?

Now, that brings us to subclause 4 where provision is made for payment without conveyance in special cases, and those special cases where the corporation may take over the mortgage in arrears without insisting on title and possession are confined, as I read subclause 4, to cases where default is incurred under an insured loan and the corporation is of the opinion that foreclosure or other acquisition of the mortgaged property would undoubtedly increase the loss of interest to the loan.

Those might be—depending upon their application—quite restrictive provisions. We do not want to see this new scheme fail for lack of mortgage money coming into the market and having regard to the view that Mr. Atkinson

expressed on this particular point, and in view of the fact we are depending on the banks for substantial funds under this new scheme, I am wondering if it is not desirable to widen those provisions so that Central Mortgage and Housing Corporation will at least be sharing in some of the unpopular tasks that may fall to the lot of someone under this bill if we should run into a different situation than we have had in recent years in the real estate market? —A. Well, Mr. Fleming, before answering your question I would like to refer to some evidence I gave yesterday when I said that the technical amendments generally meet the views of the prospective approved lenders. Perhaps I should have made reference to this particular item. I do not look upon it as a technical amendment, but from my remarks of yesterday I do not want it to be inferred that the banks have abandoned all hope of getting relief on this score. I do not think they are satisfied yet that they should be the people to do the foreclosing.

Now, as to your question, when the banks gave evidence before the committee they indicated that they had not had any experience in the mortgage business. If you consider the cases of the life companies you will find that a number of them operate under the F.H.A. in the United States with loss guarantee provisions somewhat less favourable than those contained in Bill 102. Under the F.H.A., both the life companies and any other approved lenders, including the banks, must give title to the F.H.A. under the insurance plan. Therefore, it would seem reasonable to believe that those approved lenders that we have in Canada with experience in this type of operation, are quite satisfied to take the normal position of the mortgagee. Otherwise, the Canadian life companies would not be operating under the F.H.A. in the United States if they felt that this was so onerous that it was unbearable.

Mr. CRESTOHL: But, they expressed dissatisfaction at doing so.

The CHAIRMAN: They said they were unhappy. We are not here to make the banks happy.

The WITNESS: No, they were not happy, Mr. Crestohl, but I would just like to remind the committee, that under terms of loss settlement less favourable than those proposed in Bill 102, the life companies who operate in both countries seem to have no reluctance whatsoever in taking on this duty in the United States. Now, I believe that if the prospective and approved lenders are going into the mortgage business, and are going to receive a rate of return on mortgage business which in excess of base government rates, plus their cost of operation, then this securing of title to make claim upon us is part and parcel of the mortgage business. I do not believe, Mr. Fleming, that subclause 4 contemplates any variation from the general principle that the mortgagee shall give us title when making claim for his insurance. Now there is, of course, another subclause under clause 11 which gives Central Mortgage and Housing Corporation the power to buy loans from an approved lender. The subclause does not require that the loans be in good standing. I offer that as a suggestion, because as I understand, it, you are wondering whether for special circumstances there might not be a broadening of subclause 4 of clause 9.

Mr. FLEMING: Mr. Chairman, Mr. Mansur has dwelt on the experience of the existing loan institutions. There is no doubt, of course, those who have been in the mortgage business are quite familiar with the practice and procedure of foreclosure and acquisition of title in cases of adequate default. You said, Mr. Chairman, we are not here to make the banks happy. Well, I think we are here, however, to try to make this scheme sufficiently attractive to draw bank participation.

The CHAIRMAN: Yes, absolutely.

Mr. FLEMING: And having regard to that word of warning, thrown out by Mr. Atkinson, I was wondering if this is not the place where some broadening of the restrictive terms of a provision like subclause 4 might not aid very much in meeting objections on the part of those on whom, after all, we are depending for the funds to make this scheme succeed?

By Mr. Macdonnell:

Q. Could I ask a question which arises out of Mr. Fleming's question? I appreciate what you said about clause 11, but I wish you would comment on those words that seem to be there: "Where a corporation is of the opinion that foreclosure or other acquisition would unduly increase the loss in respect to the loan," and so on. It seems to me that this is putting quite an onus on you. You have to reach that conclusion before you can make a deal, so to speak?—A. Well, Mr. Macdonnell, we have had cases where the joint lender and ourselves came to the conclusion that it would be better to abandon our mortgage claim than go through foreclosure and take title to the property.

Q. But under this wording?—A. Yes, very much the same wording, and it was designated for these cases.

Q. I understand this problem has been a trivial one up to date?—A. Yes, and I do not expect a wider application of the escape in clause 4, to change the overall policy that, in the average case, the approved lender shall convey the property to the corporation in order to make a claim on its insurance.

Mr. FLEMING: Well, if times are good it looks to me as though the banks might be prepared to participate. The moment things get slack I think the banks will not, in view of what has been said, put up the funds that are going to be needed to meet the objectives that we have been talking about here. We had labour delegations yesterday already talking about a moratorium on the mortgage payments on the homes of workers now out of employment. If the situation we have become accustomed to in recent years should change, I am just saying now, Mr. Chairman, that I think it is going to be found that clause 9 with its restrictive terms and its rigidity may defeat the purpose that has been indicated to us as being the purpose of this bill.

The WITNESS: Well, Mr. Fleming, you will recall that in the evidence to which you refer, Mr. Atkinson carefully qualified practically everything he said about the actual operations under the Housing Act, by saying that they had not had any experience in that field. He emphasized that they were inexperienced. This may be a matter where their inexperience has led them to conclusions that are not warranted. Certainly the experience of the life companies who have operations in the United States would suggest that that might be a reasonable suggestion.

Mr. CANNON: All of us who are lawyers know that foreclosure proceedings are expensive. My point is that even with the wording of the clause as it is, there is a certain leeway that would permit the corporation to by-pass foreclosure proceedings in a great many cases if they feel disposed to do so; because in many cases where you have to foreclose, you have to assume that the man is not able to pay; and if he is not able to pay the capital, he cannot pay the costs either. That means the burden of paying the costs of the foreclosure proceedings would fall on the mortgagee, and it seems to me that there would be good reason in nearly all cases of foreclosure to decide that foreclosure would entail an increase in the loss in respect to the loan: so my point is there is more leeway than Mr. Fleming seems to have recognized.

Mr. FLEMING: If Mr. Cannon is right, then there is more leeway than Mr. Mansur sees in it.

The CHAIRMAN: Am I right in assuming it is rather good business for the banks? It occurs to me that banks pay 2 per cent on their savings deposits, is that about right?

Mr. HELLYER: Yes.

The CHAIRMAN: It costs them three-quarters to one per cent to do business. We are offering them $5\frac{1}{2}$ per cent approximately, and you will notice that I said "approximately", which is a profit of almost 100 per cent on a Government Guaranteed Security. They should not complain about having to take some risks. Is there anything wrong with those calculations?

Mr. McILRAITH: Not a thing!

Mr. CRESTOHL: I do not think the apprehension of the bank stems from the amount of money involved or the proceedings involved I think they are more concerned with the bad public relations that would result for them if in a small town they have to foreclose against a widow or some unfortunate woman and put her out of her home. I feel it is that which concerns them more than the money involved.

The CHAIRMAN: I am concerned that bad public relations should not affect any member sitting around this table.

Mr. MACDONNELL: Do I understand, Mr. Mansur, that as a matter of practical business, the transaction we are talking about is much more likely to happen under clause 11, than clause 9? Is that what I take from what you said?

The WITNESS: I wonder if I should put it this way, Mr. Macdonnell. I think, on instructions from the government, we will operate under clause 11 under circumstances which are difficult for us to visualize today.

The CHAIRMAN: Let us proceed, gentlemen. It was moved by Mr. Weaver, seconded by Mr. McIlraith, that clause 9 as it presently appears in the bill will be deleted and that the new clause 9 will be substituted.

Carried.

Clause 10: "Mortgage Insurance Reserve Fund" we have carried?

Mortgage Insurance Reserve Fund

10. (1) The Corporation shall establish a fund to be known as the "Mortgage Insurance Reserve Fund", in this Act called the "Fund", to which shall be credited all insurance fees received by the Corporation under this Act.

Assets of the Fund

(2) Property acquired by the Corporation under section 9, and investments made out of the Fund under subsection (3) of this section shall be assets of the Fund.

Investments out of Fund

(3) The Corporation may invest any part of the Fund in obligations of or guaranteed by Canada.

Payments out of Fund

(4) All payments required to be made by the Corporation under section 9 shall be made out of the Fund.

Advances out of C.R.F.

(5) At the request of the Corporation the Minister may, out of the Consolidated Revenue Fund, advance to the Corporation upon terms and conditions approved by the Governor in Council, such amounts as the Minister considers necessary to enable the Corporation to discharge its obligations under section 9.

Mr. FLEMING: No, we have not.

The CHAIRMAN: No, clause 10 stood.

Does it carry now?

The WITNESS: There is one trouble with clause 10, and I apologize for not having an amendment which has been cleared by everybody concerned, but it is the point I mentioned yesterday, that we are now advised that both the premiums which flow into this fund and the income on investments of the fund are taxable income. Obviously such was not intended. We had rather hoped that, with parliament instructing us that a reserve fund be established, a method of accounting would be determined so that the terms of section 84 of the Income Tax Act would be overwritten by the direction of parliament. We are advised by authorities in the income tax department that in their opinion the definite instructions under clause 10 do not over-ride section 84, and I was wondering, Mr. Chairman, if perhaps a little later in the day I might come back to clause 10.

Mr. ADAMSON: That has been the difficulty I have seen through most of this legislation, the trouble of your income tax on all these funds.

The CHAIRMAN: Gentlemen, clause 10: "Mortgage Insurance Reserve Fund?"

Stands.

Clause 11: "Corporation Investments"?
Investments by Corporation.

11. (1) The Corporation may out of its capital, out of the reserve fund established under section 30 of the *Central Mortgage and Housing Corporation Act*, or out of moneys appropriated by section 22 for the purpose
 - (a) purchase all right or interest of the holder of an insured loan and take an assignment of the mortgage and other security taken in respect thereof; and
 - (b) make loans to an approved lender on such terms and conditions, including the rate of interest, as the Corporation may determine upon the security of an assignment of or an agreement to assign insured loans held by the approved lender.

Sale of Obligations

(2) The Corporation may sell to an approved lender any obligation to the Corporation that is secured by a first mortgage and assign the security held by the Corporation in respect thereof.

Insurance of Obligations Sold.

(3) When the Corporation has sold an obligation pursuant to subsection (2) it may issue an insurance policy in respect thereof to the purchaser and such obligation shall be deemed to be an insured loan and the Corporation shall, at the time of the sale, credit the Fund with one and three-quarters per cent of the amount of the obligation at the time of sale if it is in respect of a house, and two and one-quarter per cent thereof if it is in respect of a rental housing project.

Mr. FLEMING: I was thinking about what kind of terms the corporation might have in mind in connection with the purchase and sale of insured loans?

The WITNESS: Assuming that there had been no change in interest rate from the time the loan was first made, and assuming no special situation that might tend to suggest a premium or a discount, I would be thinking under subclause (a) in terms of par, or thereabouts. However, if loans were made at say 5 per cent in 1957 and in 1962 it was considered desirable to exercise subclause

(a) and the rate at that time was say 6 per cent, I think it would be appropriate that the price reflect a discount on account of the changed interest rates. I would think that any purchase under subclause (a) would be based largely on the yield from that particular mortgage in, the light of current interest rates, at the time of purchase. Now, moving on to subclause (b), which permits loans to an approved lender. I would think that the rate of interest, which might be charged to the approved lender, for the loan against the security of an insured mortgage would have regard to the cost of operating a mortgage business at the time the loan was made to it. There has been some discussion in this committee about it costing an approved lender between .6 per cent and 1 per cent to operate such a business. Then there is the traditional spread of somewhere between 1½ per cent to 2 per cent between the base government rates and the going mortgage rates. It seems to me that these would be factors which should be taken into consideration when an interest rate was struck for the purpose of subclause (b).

Q. Do you interpret clause 11 as being broad enough to include the purchase and sale of an insured loan which is in default?—A. I do.

Q. Have you had an opinion on that?—A. I have not, but there is certainly no prohibition, because an insured loan in default is surely an insured loan just as much as is an insured loan which is not in default.

By Mr. Applewhaite:

Q. Clause 11, subclause (1) (b), says that the corporation can make a loan upon the security of an assignment or of an agreement to assign insured loans held by the approved lender on the security of the mortgage. Are those loans to be considered as having been made before or after the approved lender has made the loan for the essential period?—A. Loans are contemplated on the approved lender's existing portfolio of loans—"... upon the security of an assignment or of an agreement to assign..." The agreement to assign is this: it might be the case that the approved lender needed money and needed it pretty badly. It takes some time to assign loans. They must go through the registry office in certain jurisdictions, and in addition to that the assignment must be served on the borrower. So it seemed prudent that in that clause we should not be delayed, until such time as all the legal formalities of a complete assignment had gone through.

Q. What you are doing is putting yourself in the position where you can go to the assistance of an approved lender who, for some reason, falls short of money as a result of having made loans. You are putting that approved lender in a position where he can make additional loans for which he did not already have the cash.

The CHAIRMAN: That is right.

The WITNESS: If you will refer to section 29 of the Central Mortgage Act you will find the power in that section for us to make loans for the purposes you suggest.

By Mr. Fleming:

Q. But not under clause 11?—A. Not under clause 11.

Mr. HELLYER: Is it intended in clause 11 that properties held by Central Mortgage and Housing Corporation, let us say, would be sold and insurance policies written against them?

The WITNESS: Well, it is intended when any property owned by a corporation is sold to an individual, with the resulting balance of purchase price in the form of a mortgage, that the balance of the purchase price may be sold to an approved lender on an insured basis provided that Central Mortgage and

Housing Corporation credits the mortgage insurance fund with an appropriate premium. A case in point would be the units that used to be owned by Housing Enterprises Limited and which are now owned by us. If we sell them subject to a mortgage, there is provision in this legislation that such mortgage could be sold to an approved lender, subject to the insurance provisions of Bill 102.

By Mr. Tucker:

Q. I take it then from what Mr. Mansur has said that there is no intention to use clause 11, subclause (1) (b), but perhaps in certain cases you would make loans to an approved lender, for example, at a lower rate of interest, perhaps 1 per cent over the cost of government bonds, upon condition that they relate to a certain specific area where they are finding the interest rate to be too heavy to bear and will say to these approved lenders: "We will give you your money at the going rate of government bonds, provided you charge not more than 1½ per cent or 2 per cent over that amount." Is there any idea of using it for that purpose, which is something along the idea of the Central Mortgage Bank?—A. I think that under that section we could make an agreement to make a loan after the approved lender had made an insured mortgage loan, with very much the effect that you suggest. We did so under section 29 of the Central Mortgage Act. Whether the step would be taken by Central Mortgage and Housing Corporation would, of course, be dependent upon over-all monetary policy. I would be very doubtful if Central Mortgage and Housing Corporation would take such a step without the concurrence at least of the government so to do.

Q. And the governor of the Bank of Canada, I suppose?—A. We would look to the government, Mr. Tucker.

The CHAIRMAN: Does clause 11, as amended, carry?

Carried.

Does clause 12 carry? That has to do with the regulations. I think that Mr. Fleming in his last half dozen question covered part of the new regulations. Mr. Mansur will now answer any questions which anyone has with respect to the proposed new regulations.

Regulations

Regulations by Governor in Council

12. (1) The Governor in Council may by regulation
 - (a) determine the maximum loan that may be made in respect of a house or housing project;
 - (b) determine the minimum period of amortization of an insured loan;
 - (c) subject to sections 4 and 6, determine the maximum charges that may be made by an approved lender or holder of an insured loan in respect of the making and administration thereof;
 - (d) prescribe the form of the insurance policy that may be issued in respect of an insured loan and of the mortgage that shall be taken in respect thereof;
 - (e) prescribe such other forms as may be required in connection with the making or administration of an insured loan; and
 - (f) make provision for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes or provisions of this Part.

By Corporation

- (2) The Corporation may
 - (a) prescribe sound standards of construction;

- (b) prescribe the procedures to be followed in authorizing advances by an approved lender to a borrower; and
- (c) prescribe such forms as may be required in connection with the making or administration of a loan and have not been provided for by regulation pursuant to subsection (1).

Mr. FLEMING: While Mr. Macdonnell is collecting his thoughts, I would like to ask a question concerning the maximum loan. I am not asking that it should be spelled out in the Act because presumably after a period of time you might desire to reduce the maximum loan or to increase it. But I suggest that the government must know now what the maximum loan is going to be. The minister threw out some suggestions in second reading that this bill might even go into effect next week. So the government must know right now what the maximum loan is going to be. Can you tell us that?

The CHAIRMAN: I am not sure that they know, but I think they do have a very good idea. Clause 11 as amended has passed. It may be in the mind of the minister, but I do not think he is ready or disposed to indicate what it is at this time. It will be in the regulations. It has been indicated to us that it will be higher than the amount in existence at the present time. If it happens to be lower, then you can lay the blame on me.

Mr. QUELCH: I take it that the regulations which will govern the percentage of income required to build a house will be less restrictive than at the present time?

The CHAIRMAN: I am sure you can take that for granted. It has been so indicated in the evidence. Mr. Mansur already indicated that in many instances they have taken into consideration the earnings of the wife, and the earnings of the family, as well as family income. I think you are quite right in assuming that.

Mr. QUELCH: In respect to the wife 23 per cent will not be—

The CHAIRMAN: I suggest the regulations will not be more restrictive.

Mr. QUELCH: Why not put it the other way.

The CHAIRMAN: I think the regulations will be less restrictive.

Mr. APPLEWHAITE: Why do the regulations determine the minimum period of amortization and not the maximum?

The WITNESS: The Act fixes the maximum. I think that subclause (b) contemplates that it would be inappropriate to take a premium from a borrower for a loan amortization period that was for one year.

Mr. MACDONNELL: You suggested that this was to be my chance and I am putting it to you quite seriously whether you think it is unreasonable for me to ask to see the draft forms of insurance policies and other documents? I recognize there may be key figures or key clauses, but I put it to you: Do you think it is unreasonable? You would not expect any more from me. I would think that it was reasonable.

The Chairman:

Mr. Macdonnell, you are a reasonable man, but you have put me in rather an embarrassing position. I think that the regulations are an administrative process and as such is not before us at the present time. It is a matter on which a full agreement will have to be reached between Central Mortgage and Housing Corporation and these various institutions which participate.

Mr. Macdonnell:

May I ask this one question, and I will not press it further? Do you think from what the minister has said, that he would be prepared to let us have

the draft forms? May I suggest that you discuss it with him and Mr. Mansur and give you final ruling at the next meeting?

The WITNESS: Well, Mr. Macdonnell, earlier this morning there was reference to the forms. I do not think there is too much in the forms of interest to the committee. I think it is the regulations which would be of more interest, but the forms, by the way, are in preparation now. Although the forms are in draft form, they are still subject to changes. However, they include an application form, an appraisal form, a commitment to insure, an inspection report, a progress advance estimate from the mortgage forms which are to be approved by the Governor-in-Council, the loss settlement form, the builders sale form, the form for the assumption of covenant and release of the builder's covenant, and the insurance policy which has to be approved by the Governor-in-Council. I think, Mr. Macdonnell, that is a complete list of the forms. As to the regulations, there have been discussions between ourselves and the lending institutions. I have my notion as to what the regulation might look like. In fact, I imagine I will be asked to make a recommendation to the government as to the form of the regulations. I think the minister this morning gave me the "green light" to discuss my notion of any regulations that might be brought up by the committee. I would be very glad to do so. I do not believe that in the regulations there are many things which change the spirit and intent of Bill 102, but if there is anything I will be very glad to tell any member of the committee my notion of what an appropriate regulation would be in respect to any particular point.

Mr. APPLEWHAITE: Did you say "many things" or "anything?"

The WITNESS: Any thing. Mr. Quelch mentioned the 23 per cent. As I indicated in earlier evidence, there are some changes contemplated in the regulations. I am not at all certain that a widening of it would make it less restrictive. I believe that the rough 23 per cent rule probably represents the point where the administrative procedure changes. That is, over 23 per cent it becomes a matter of joint consideration. Below 23 per cent it is for consideration by the approved lender only. I believe that the existence of that 23 per cent administrative level has had the effect of coaxing a number of lenders up to that level. I believe there is at least a possibility if we removed that 23 percent, that the lenders might become rather more restrictive in respect to the capacity of the borrower to make his monthly payments. Although I have expressed that as a belief, I cannot prove it one way or the other, but I do believe that if the 23 percent were changed to 27 percent there would be very little upward movement in the debt ratio allowed by the approved lender. Indeed the reverse might be the case. I realize, Mr. Quelch, there is room for difference of opinion on that, but I do not honestly believe that the existence of the 23 percent is having the effect of squeezing borrowers out of the area of eligibility for National Housing Act loans. In fact, in the reverse, I believe that we have coaxed a number of companies up from the 20 per cent rule, they more normally think of, to the 23 per cent; Practically all the companies, in fact all of them, are anxious to cooperate with the spirit and intent of the Housing Act and its regulations.

Mr. POULIOT: Did Mr. Mansur say that the forms are available? I remember that is one of the first things I asked for.

The CHAIRMAN: The question was raised earlier today—I recalled that request—and Mr. Mansur has told us as soon as they are available they will be distributed.

Mr. POULIOT: Are there some forms which are in use now?

The CHAIRMAN: No, there are no forms in use, Mr. Pouliot.

Mr. QUELCH: Do you differentiate as between a young family with a number of young children and perhaps an older couple without children, with the idea in mind that the young couple could not spend as much as the older couple?

The WITNESS: Yes. I have noticed that in a number of cases exceeding the 23 per cent., invariably you find that the family consists of a man and wife alone.

The CHAIRMAN: Gentlemen, we will continue with consideration of clause 12 this afternoon at 3.30 o'clock.

AFTERNOON SESSION

MARCH 2, 1954

3:30 p.m.

The CHAIRMAN: Gentlemen, we have an amendment to clause 10.

MORTGAGE INSURANCE RESERVE FUND

Mortgage Insurance Reserve Fund

10. (1) The Corporation shall establish a fund to be known as the "Mortgage Insurance Reserve Fund", in this Act called the "Fund", to which shall be credited all insurance fees received by the Corporation under this Act.

Assets of the Fund

(2) Property acquired by the Corporation under section 9, and investments made out of the Fund under subsection (3) of this section shall be assets of the Fund.

(3) The Corporation may invest any part of the Fund in obligations of or guaranteed by Canada.

Payments out of Fund

(4) All payments required to be made by the Corporation under section 9 shall be made out of the Fund.

Advances out of C.R.F.

(5) At the request of the Corporation the Minister may, out of the Consolidated Revenue Fund, advance to the Corporation upon terms and conditions approved by the Governor in Council, such amounts as the Minister considers necessary to enable the Corporation to discharge its obligations under section 9.

Mr. D. B. Mansur, President Central Mortgage and Housing Corporation, recalled:

The CHAIRMAN: Mr. Mansur, you will remember, was somewhat concerned with the corporation having to pay income tax, and we shared his concern. Very well, will you proceed now, Mr. Mansur, please?

The WITNESS: Clause 10 on page 12 should be amended as follows:

Insert between subclauses 3 and 4 the following subclause:

(4) Insurance fees paid into the fund, property acquired as assets of the fund, and the return on investments and assets of the fund shall not be taxable income of the corporation.

Then it would follow along by renumbering present subclauses 4 and 5 as subclauses 5 and 6.

Mr. Chairman, that amendment has been discussed with the Minister of Public Works and the Minister of Finance and I am informed that it is satisfactory to them.

The CHAIRMAN: Moved by Mr. Cardin and seconded by Mr. Applewhaite. The amendment is carried.

Mr. APPLEWHAITE: There is not a "notwithstanding" in the other Act, or a clause in the Income Tax Act which would conflict with this amendment?

The WITNESS: I think that the problem in hand is to determine what kind of income this is, and if Parliament makes it abundantly clear that it is non-taxable income, I think that would satisfy the requirements of income tax.

The CHAIRMAN: Does clause 10, as amended, carry?

Now, Mr. Macdonnell. We are at clause 12, which deals with the regulations.

By Mr. Macdonnell:

Q. As I understand, Mr. Chairman, what we are doing now is asking Mr. Mansur questions on points in regard to the regulations which he might, in his knowledge, be able to answer in a general way. I have been looking through the evidence of Mr. Atkinson and at page 304 he was asked this question:

By Mr. Fleming:

Q. ...Are you aware of the position you will be in under the bill if you do not attempt to work out these figures by giving an extension of time to the mortgagor?

And his answer was:

A. As I understand it, the bill itself is rather rigid in its requirements; that certain action must be taken if we are to retain our insurance coverage. I cannot say I have had time to give sufficient study to the bill to be entirely certain of these rigidities, but I believe they exist.

I wonder if Mr. Mansur could say to us whether in any of the documents, such as the mortgage or the insurance policy, the requirements are set out, or can he throw any light on that question?—A. The requirements as set out in clause 9, where it says that if the approved lender is to get credit in the loss settlement for arrears beyond six months, after three monthly payments of principal, interest and taxes are in arrears, it must report to us. In the regulations which I think would be appropriate, there should be a period allowed to the approved lender within which to fulfill that requirement. We were thinking of 30 days. I do not think that the regulations as I understand them will in any way change the right of the approved lender in a loss settlement as defined by clause 9.

Q. Thank you. Now on page 307 in the examination of Mr. Atkinson there was a question put by Mr. Low regarding provincial moratoria and Mr. Atkinson said:

A. As I understand it, the insurance would not be effective or we could not collect insurance if there were provincial moratoria.

I do not suppose there is any likelihood of there being any reference to such a possible contingency as that in the regulations, or would it be just a matter of the operation of the law?—A. It would be just a matter of the operation of law and moratoria. I do not think there will be any reference to moratoria in the regulations.

Q. On page 308 Mr. McIlraith asked:

Mr. MCLLRAITH: . . . but I am trying to come to some idea of working out a form of technique for these securities in such a way as to make them easily purchasable through the banks by small investors through the development of personal savings.

And the witness replied as follows:

The WITNESS: I am quite hopeful that Mr. Mansur will be sufficiently impressed by that to do what he can do in getting a document which is saleable.

Now, can anything be said as to that because it is a point, I take it, that is of great importance to approved lenders?—A. The document which will be saleable is the mortgage deed suitably assigned. That will be the instrument which is given in satisfaction of the purchase price, together with the insurance policy which will also be assigned. I do not think there is anything contained in the regulations or legislation which makes the transfer of the insured mortgage any less transferable than it is in the United States where they are transferred very freely.

Q. Will there be any difficulty with this suggestion: that there might very well be difficulty with the approved lender in the transfer of the mortgage in determining just exactly what the amount is by way of principal, interest and other charges. Is that going to present any difficulty?—A. I do not think there will be difficulty because whether the approved lender keeps an account with a segregation of taxes or whether the taxes are blended into the account, the approved lender from time to time is going to be asked for a quotation, as every mortgage company is. They will be able to take from their books the amount of principal owing. In connection with this transferability, there is one minor limitation, that is, that the regulations are likely to provide that if an approved lender sells an insured mortgage to an individual who is not an approved lender, then the approved lender so selling will give an undertaking that they will always see that an approved lender will service the mortgage, so that the insurance policy will not lapse for that reason.

Q. Is that substantially the situation in the United States?—A. No. In the United States there is no provision for ownership other than by an approved lender.

By Mr. Fraser (Peterborough):

Q. Dealing through a mortgage broker?—A. Yes, dealing through a mortgage broker, and it is always in the hands of an approved lender.

Q. Yes.—A. I think that the prospective approved lender would agree that this is a reasonable assurance to be given to an individual purchaser of the mortgage because the statute is very clear that if the insured mortgage is not administered by an approved lender, then the insurance lapses.

In discussing this point with the prospective approved lenders, I brought forward the possibility that an insured loan might be sold to an individual with the administration being retained by the approved lender who sold the mortgage. Then, perhaps at a later date, the approved lender decided to go out of the business. In that event the holder might not be able to find another approved lender. Therefore it seemed that the only thing to do was to have the individual who is buying the insured mortgage look to the approved lender for assurance of continuing administration so that the insurance policy might stay in force.

Q. The approved lender would then charge the person who purchased that mortgage a fee for collecting.—A. That is the method employed in the United States, and the fee is usually $\frac{1}{2}$ of 1 per cent.

By Mr. Macdonnell:

Q. When an approved lender sells to an individual, the individual has to look not merely at his document but he must rely on the approved lender to carry out the sale as part of the transaction.—A. That is correct.

Q. What happens if the approved lender fails? I suppose that approved lenders are always people of substance and it is not a thing which is likely to happen?—A. I do not think it is likely that most of our approved lenders will fail. But if that contingency should arise, then I believe a benevolent Central Mortgage and Housing Corporation would enter the picture and make other arrangements for the individual.

Mr. FRASER (*Peterborough*): That would happen when an individual asked an approved lender whom he knew was not likely to go out of business?

By Mr. Macdonnell:

Q. I have several more questions. Will the regulations provide for the amount of loan to be dependent on floor space, or will the amount of loan be related to the lending value only? Will there be a floor space requirement?—A. I would anticipate that in addition to the over-all limitation of the ratio of the loan to the lending value as defined in the statute, there would also be a limitation of so much per square foot for various types of housing. For instance, we might have a limitation that in the case of a bungalow, the loan should not exceed \$8,000 for the first 750 square feet, and an additional \$9 for each square foot the bungalow has in excess of 750 square feet.

Q. I take it that the original inspector takes the responsibility for all these things being correct?—A. That is correct, sir.

Q. What will be the relationship of lending value to the sale price to the purchaser? Will the regulations specify this?—A. The regulations, in my mind, at present do not specify that. In the past the maximum sale prices, I think, in every case have been the lending value. We are now considering a variation between the maximum sale price and the lending value. The reason for it is this: the price of land has advanced rapidly in our larger communities, with very real costs to the builder. We feel that the recognition of the full cost of the land is indeed to confirm the inflationary tendencies in the land. We are considering at the moment—and have made no recommendation to the government—that the maximum sale price might represent the fair cost to the builder, including his profit, but that the loan be based on the lending value where the full value of the land has not been included. As a specific example, suppose land continues to increase in price, and lots which we think as part of the value of the property should not be considered for more than \$2,000 although land actually transfers at \$3,000. There is \$10,000 worth of house. What we have been considering is the desirability of recognizing the builder's outlay of \$3,000 for the land and allowing a maximum sale price of \$13,000, but basing the loan on a \$12,000 lending value. Now, I may be a little ahead of myself, Mr. Macdonnell, but one of the things that is worrying us probably more than anything else at the moment is the recognition in the lending value, upon which the loan is based, of these extraordinary land costs. It is a large measure confirming these extraordinary land costs, and we wonder if we are not rather a contributing factor towards this upward move in the value of land, because we do recognize it in our lending value. Up to the present, lending value equals maximum sale price, but we are considering a variation between the two for these reasons.

Q. Is it contemplated that the regulations will spell out the number and time of making of inspections where progress advances are insured?—A. It is proposed that the regulations will place a requirement upon Central Mortgage and Housing Corporation that there be not less than four inspections: one at or about the time of the laying of the footings; one at or about the time the roof

is completed; one at or about the time the wiring and plumbing are installed and prior to the process of lathing or its equivalent; and one upon the completion of the house. In actual operation, I think that our number of inspections will average nearer six rather than the requirement of four placed upon us in the regulations.

Q. Do the regulations contemplate that the lender will be notified of any defects in construction preventing the payment of progress advances?—

A. Yes, Mr. Macdonnell. When our compliance inspection takes place, our inspector who comes on site will have with him a form with five copies. On that form he will mark the compliance infractions. One of those he will retain for his own record, his follow-up, to see that they are corrected; one will be left on the job with the man in charge; the third one will be sent to the builder who is responsible for building the house; the fourth and fifth copies will be sent to the approved lender, so that they may retain one and send one on to the owner. In other words, we are making every effort to see that everybody interested knows that a compliance infraction has been committed on the particular property which we have inspected.

Mr. APPLEWHAITE: May I butt in? Does the inspector have no responsibility for advising the home owner?

The WITNESS: Mr. Applewhaite, the contractual relationship is between the approved lender and the home owner. We have discussed this with the prospective approved lenders, and they feel that this relationship should be continued and it would be better for them to get in touch with their client, the home owner, rather than for Central Mortgage and Housing Corporation to do so.

Mr. FRASER (*Peterborough*): Is there compulsion on that, that the approved lender must notify the home owner?

The WITNESS: The regulations, I believe, will provide that the approved lender must send a copy of the compliance infraction to the owner of the house.

Mr. FRASER (*Peterborough*): I believe that should be in it. It should be a "must" in there, because the owner should know.

The CHAIRMAN: Any more questions, Mr. Macdonnell?

By Mr. Macdonnell:

Q. Presumably a lender will determine whether a lending value set by Central Mortgage and Housing Corporation is satisfactory to him, and he will determine what amount of the loan he is prepared to make to an applicant, and seek an undertaking to insure from Central Mortgage and Housing Corporation. Will the regulations specify, in other than a general way such as a reference to the Act, the conditions under which the undertaking to insure will be given?—A. I am not quite sure that I get the point at issue. We contemplate that the approved lender in most cases will turn to us for an appraisal upon which they can calculate the loan and do their negotiations with the applicant. The next thing we see is an application signed by the applicant and concurred in by the approved lender. If that application falls within the ratios mentioned in the Act, then we will be prepared to proceed with that loan. Does that answer your question?

Q. Yes. What happens if a progress advance is made without authority from the Central Mortgage and Housing Corporation, where the advances are to be insured? Is the insurance cancelled or can the fault be remedied?—

A. The advances up to the one that was unauthorized by us would, of course, be insured. If an administrative mistake had occurred, I think that we would be prepared to negotiate with the approved lender who had made the unauthorized advances. If, however, the approved lender were making a con-

tinual practice of making advances beyond our progress advance reports, then I think we would come to a point where we would tell them that they are not insured and that we will not insure them.

Q. Even though you found out that substantially the situation was O.K.?—

A. I think that would be a matter for negotiation, although it is certainly not contemplated in the regulations that the approved lender shall have the right to make unauthorized advances and expect insurance for them. But I would hope that where this did occur we would show the same good reason that we do in other matters.

Q. Do the regulations contemplate that Central Mortgage and Housing Corporation is responsible for matters of title, legal protection against liens, etc., or who is responsible for these?—A. The approved lender through his agent, the solicitor, is responsible for matters in connection with the searching of title, the advancing of moneys, liens, and other related matters.

Q. Would the regulations have anything to say in respect to charges or fees which may be made against the borrower?—A. They will. The regulations will specify in detail the charges and fees that may be charged to the borrower, and will go even beyond that to mention that the spirit and intent is that it shall be a par deal as far as the borrower is concerned.

Q. Have you arranged with the law societies throughout Canada as to the fees?—A. No, we think there will be elements of competition in that, and there is a tariff, as you know, in most provinces. We just hope that that is a matter that will look after itself.

Q. What provision will the regulations make in respect of the issuance of the insurance policy?—A. After the loan is fully paid out, the regulations will provide that the approved lender make application to us for the issue of a formal insurance policy.

Q. Is it contemplated that the regulations will provide for incontestability of the insurance policy?—A. The extent to which the insurance policy is contestible will be determined in the form of the insurance policy to be approved by the Governor in Council. Generally speaking, the main items under which an insurance policy may be contestible are fraud and the failure of the approved lender to carry fire insurance. Under this arrangement, as under the National Housing Act, the responsibility for carrying fire insurance is that of the approved lender. Central Mortgage and Housing Corporation is held harmless for losses resulting from fire under the terms of the insurance policy. Now, to be more specific, I think that the policy shall cease to be in force if, firstly, it has been obtained by fraud on the part of the insured; secondly, the loan ceases to be administered by an approved lender; thirdly, the right of recovery under the mortgage insured has ceased to exist other than by reason of the acquisition by the insured of the mortgage property after default by foreclosure; fourthly, the approved lender holding or administering the loan has failed to file a claim hereunder within the time limit, which will be specified in the regulations; and, fifthly, where the insured fails to convey to the corporation title to the mortgage premises within the time required by the regulations which presently is 30 days.

Mr. APPLEWHAITE: Mr. Chairman, would you be willing to have asked at this stage who pays for the fire insurance premium policies in the long run?

The WITNESS: The borrower.

By Mr. Macdonnell:

Q. Mr. Chairman, is it contemplated that the various forms listed by Mr. Mansur this morning will be part and parcel of the regulations?—A. No, under Bill 102, the establishment of the forms is permitted by the corporation. We may establish forms save to the extent they are reserved for the Governor-in-Council to establish.

Q. Will the regulations provide a penalty in case the approved sale price is not adhered to by the builder, or where the builder sells to other than a purchaser approved under the 23 per cent rule? Presumably the regulations provide for an approved sale price where a maximum loan is granted?—A. No, the approved lender undertakes to use his best efforts to carry out the mechanics to maintain the maximum sale price policy. If he fails to do, then he fails to do so. There is no sanction against the lender. The sanction lies in that 10 per cent of the loan approved under the maximum sales price arrangement shall be withheld. Therefore, Mr. Macdonnell, the sanction really lies directly against the borrower and indirectly against the builder.

Q. At page 26, Mr. Mansur is reported as saying "The property is in good physical condition". Is it thought that the regulations will provide for the case where the property is not in good physical condition by reducing the insurance payments?—A. Yes sir, included in the regulations is a "wastage" clause.

Q. Will the regulations spell out conditions under which possession will be required?—A. At the present time we do not contemplate that, other than making it clear that in the case of an apartment house we obviously do not want the apartment house emptied of all the perfectly good tenants. We will accept as the equivalent of vacant possession, possession of an individual house provided that the occupant is not the defaulting mortgagor or a relative of the mortgagor.

Q. What kind of mortgage forms are visualized? Will the regulations incorporate differing mortgage forms? There is some rumour that some 40 different mortgage forms are contemplated. Will these be submitted for the approval of practicing lawyers in each province?—A. I forget what the number is now—there are between 40 and 48 mortgage forms contemplated.

Mr. FLEMING: Printed forms?

The WITNESS: Yes, printed forms, which will be approved by the Governor-in-Council. In the first place, there is the case of the mortgage company that wants to make its own advances and those which do not. I think that occasions a variation. Then there is a variation of provincial requirements. There is a variation depending on whether it is rental property or home ownership property. If one takes 10 provinces and starts multiplying up, one comes very quickly to 3 or 4 in each province. I think the actual number is 48, but I do not see any way to avoid it and, indeed, under the present Act there are almost that many. As to the approval, we have been in consultation with the solicitors which we use in the various provinces. We have our own ideas resulting from our experience. We have the benefit of the advice and assistance of the Dominion Mortgage and Investments Association, and we also have the precedent established by operations under the National Housing Act. A combination of those sources will result in the mortgage deeds, and I think it will be relatively satisfactory, although I would like to add quickly at this point that there are as many opinions as to a proper mortgage deed as there are lawyers in any community.

Mr. MACDONNELL: Thank you, Mr. Mansur, and thank you too, Mr. Chairman.

The CHAIRMAN: I have never been able to obtain a copy of the regulations—will you give me your copy?

Mr. MACDONNELL: You suspect me wrongly.

The WITNESS: Before clause 12 is passed, I think I should report to the committee another instance in the statement I made yesterday which was not entirely correct. I indicated to this committee yesterday that all the technical amendments that we brought forward had satisfied the requirements of the banks and the life companies. Under the Bank Act, there is a prohibition

against banks lending on the security of chattel mortgages. Under the Bank Act, which bill this committee will be considering later, the banks will be given authority to make loans under the terms of the National Housing Act. It had been our opinion that if a chattel mortgage was a requirement under the regulations of the National Housing Act then that automatically would give the banks the authority to make a loan against a chattel mortgage, notwithstanding the limitation against so doing contained in the Bank Act. We felt that the general authorization to them to proceed under this Act would allow them to conform to any of the requirements of this Act. I understand that the banks are advised by their solicitors that whereas we thought that, they did not think that. And, on the side of abundant caution the banks have suggested that in clause 12, subsection 1, that a new (d) should be added:

authorize the taking of a chattel mortgage, an assignment of rents or other security as further security for loans made under this part and part II, and prescribe the circumstances in which such further security shall be taken.

Now, as I mentioned earlier, Mr. Chairman, we had felt that this point was covered. The solicitors for the banks feel that the point is not covered and that the banks have no authority to go into a large apartment house project and take a chattel mortgage.

The CHAIRMAN: You are satisfied?

The WITNESS: Yes.

The CHAIRMAN: And the banks are satisfied. What about the committee? Are all of you satisfied?

Mr. CANNON: Have you looked into the matter of our province where there is no chattel mortgage?

The WITNESS: Mr. Cannon, in our regulations where we require a chattel mortgage for an apartment house we definitely except the province of Quebec.

The CHAIRMAN: The amendment reads as follows:

Authorize the taking of a chattel mortgage, an assignment of rents or other security as further security for loans made under this Part and Part II, and prescribe the circumstances in which such further security shall be taken.

Mr. HUNTER: Where is that amendment?

Mr. JOHNSTON: May I ask a clarifying question?

The CHAIRMAN: Go ahead.

Mr. JOHNSTON: In the case where the banks making these loans are going to be in a position to accept further chattel mortgages, is not that an addition to the security that they have now from the insured mortgage? Would not that be an exceptional case?

The WITNESS: Mr. Johnston, if we make a loan on an apartment house, we as insurers want the approved lender to take a chattel mortgage on the stoves and refrigerators because we want those stoves and refrigerators there if we have to take title to the property. You are quite right that they have their insurance, but this requirement is put in the regulations for the protection of C.M.H.C. the insurer. I quite agree with you. It does not make much difference to the banks whether they take a chattel mortgage or not.

Mr. HENDERSON: Is the chattel mortgage insured?

The WITNESS: It is further security. The loan on an apartment house is (say) \$100,000 with the chattel mortgage as further security.

The CHAIRMAN: Clause 12(1), as amended?

Carried.

Clause 12, as amended?

Carried.

Mr. FLEMING: At the end of Part 1, I mentioned one matter we had under discussion this morning in this new revision of clause 9 which I had an opportunity of discussing with Mr. Mansur and hon. Mr. Winters at the conclusion of the meeting this morning. May I refer to it. May I also say that there is no problem raised as to the intent. The question is as to whether the language used sufficiently accomplishes that intent. You will remember that in dealing with the revision of clause 9 this morning, the reason given was that it was desired to make provision for compounding of the interest in arrears. Now, in (d) we thought to make that provision in these words:

where the default period in respect of any amount specified in paragraph (a), (b) or (c) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount

(i) for the period of such excess, or

(ii) for a period of twelve months,

whichever is the shorter period. . . .

Now, the difficulty arises in that first part in the words "for the period of such excess". The "excess" appears to relate back to the words two lines above, namely, "in excess of six months" which would seem on the face of it to mean that the compounding will apply only to the interest accruing at the end of the six months. Now, that is not the intent, as was quite plain in Mr. Mansur's statement this morning, and I would suggest for the purpose of clarification that those words are in need of amendment. I say there is no problem here about the intent. It is just whether the words used accomplish the intent. I am troubled about the words "period of such excess", which seem to suggest the period of compounding applies only to interest accruing after the six months.

The WITNESS: We brought forth this amendment because we believe that it accomplishes the transaction which I described to you this morning. We do not feel—and I say that our feeling is shared by the Department of Justice—that there is any defect in this clause because in interpreting the word "accrued" in subclause (c) it would seem that the interest accrues under (c) from the moment it is established. If that word "accrued" were not in there, we would agree with you but I do not think there is any effect in this amendment of shortening the period by six months as has been suggested. Now, that has been a very complicated clause. We have had about 8 drafts of it. I still could be wrong, but I believe that the word "accrued" in (i) of 1 (c) looks after the difficulty.

The CHAIRMAN: Are we not in a position where both the Justice Department and the legal department of the C.M.H.C. have given what they believe is the real purpose and intent of this clause? Are we not bound to follow it?

Mr. FLEMING: Mr. Chairman, it would strike me this way. There is complete agreement on the intent. There is no problem there. This question has been raised about the words in this subclause 1, and it would not seem to be enough to remove any doubt that has been raised. I would suggest it could be done very simply if the draftsmen could have a go at it.

The CHAIRMAN: Mr. Mansur tells us it has been redrafted on 6 or 7 occasions. The Department of Justice has been called in. I think it would be dangerous for us to attempt any redrafting at this time.

Mr. FLEMING: I do not wish to redraft it here. I think the draftsmen should take that clause in hand and remove any possible doubt. Mr. Mansur does not believe there is a doubt, but I do not think we wish to leave any possibility of doubt.

The CHAIRMAN: How do you remove further doubt? There does not seem to be any doubt in the mind of the Justice Department or the C.M.H.C. legal department. You have some doubt and some other lawyers may have doubt.

Mr. FLEMING: The Justice Department has more than one formula for expressing the same thought. The problem is in those words "the period of such excess", and that relates back to the words above, "excess of six months".

The CHAIRMAN: We have staffs of men in the Justice Department who know the precise meaning of English. They are specialists in drafting which is an art. They are the people who bring this before us. I think we are to some extent bound to follow their advice.

Mr. HUNTER: I would like to say, with all deference to the Justice Department, that it is not clear to me. Of course, I may not be the greatest lawyer in the world, but in my opinion I think it should be more clearly expressed. Obviously the question is whether you get interest on that 6 months interest. I am not sure whether you do, and I have read it just now for the second time.

Mr. FRASER (*Peterborough*): Perhaps if it came to a court case, you would have to get somebody to act as a referee.

The CHAIRMAN: That is what judges are for.

The WITNESS: In the case of a \$10,000 loan, the amount involved is \$4.56.

Mr. FRASER (*Peterborough*): Not very much. I do not think that the lawyers would touch it.

The CHAIRMAN: I hope not.

Mr. FLEMING: If there are 50,000 mortgages, it would mean 50,000 times \$4.56.

Mr. HUNTER: But they are not all going to be in default.

Mr. FLEMING: We are not legislating here to give rise to litigation. It should be possible, without too much trouble, to devise some wording that will remove any shadow of doubt. That is all I suggest.

The CHAIRMAN: I cannot follow the argument about the possibility of using other wording to express the intent. Justice and C.M.H.C. worked over it half a dozen times and they came up with the present section. That may not be your thought on it, but that is the best they can do and consequently I think we are bound to adopt it.

Mr. MACDONNELL: Why not put them in a room and lock them up and make them decide.

The CHAIRMAN: It is not a matter of locking people up. These people have a job to do and they have done it. You may not agree with it, in which case you could be wrong.

Mr. HEES: Or he could be right.

Mr. MACDONNELL: If you have two competent groups of men doing the job, it does not make sense to say that one group must be wrong and the other group must be right.

The CHAIRMAN: This clause has been redrafted perhaps 7 times. Justice and C.M.H.C. have done their best with the clause it is their responsibility.

Mr. MACDONNELL: Well they are only poor human beings like the rest of us.

The CHAIRMAN: They could be wrong on the next redraft.

Mr. FLEMING: I do not know how many times this has been worked over, but I do know that this version has given rise to questions and it was drawn to my attention. It strikes me that there is at least a doubt here and it strikes me also as one sitting here in the function of a legislator that I do not wish to legislate in terms which create any possibility of doubt.

The CHAIRMAN: It was drawn to the attention of Central Mortgage and Housing Corporation today and they reconsidered it since we adjourned.

Mr. FLEMING: I talked to Mr. Mansur and to Mr. Winters about it after 1:00 o'clock.

The CHAIRMAN: Other persons talked about it since then they considered giving effect to the representations which were made. If any one has a proposal to make, let us have a suggested amendment. This is the best they can come up with. They think this means what they intended it to mean and if anyone thinks otherwise, let him present an amendment.

Mr. APPLEWHAITE: Is this wording as it appears in the bill going to be reproduced in the insurance policy or is it to be worded the same way in the insurance policy?

The WITNESS: The insurance policy will have reference to the settlement provided by clause 9.

Mr. APPLEWHAITE: This is the only wording which will go into it?

The CHAIRMAN: You work on an amendment for a while, Mr. Fleming. Does clause 13 carry?

Carried.

Does clause 14 carry?

It has already been adopted.

Mr. MACDONNELL: What is the decision?

The CHAIRMAN: Mr. Fleming is drafting an amendment. Clause 14 has already been adopted. Clause 15, subclause (1) was amended and the amendment is there. You have it before you. Does clause 15 as amended carry?

Carried.

Clause 16 stands with a new clause. Subclause (4) was allowed to stand. Somebody asked about that subclause but I think it has been cleared up. Does clause 16 carry?

By Mr. Fleming:

Q. I have a question on clause 16 subclause (4) paragraph (a).

Terms of contract

(4) A contract with a limited-dividend housing company entered into under this section shall provide that

(a) the maximum ratio between the rentals to be charged and the probable family income of the lessees of each family housing unit shall be such ratio as the Corporation may deem fair and reasonable or shall make such other provision for maintaining the low-rental character of the project as the Corporation may agree to;

It is at the bottom of page 17. I know this is just a reproduction verbatim of section 16 subsection (4) of the present Act. I have a question in regard to the last three lines as to the situation to which it was intended to apply or may have been applied in past administration. It reads:

...or shall make such other provision for maintaining the low rental character of the project as the corporation may agree to;

This relates to the terms in the contract with a limited dividend housing corporation. You have a provision for a maximum ratio between rentals to be charged and the family income. Then we have these other words as well, that the corporation has the right to say what shall be the fair and reasonable ratio or shall:

make such other provision for maintaining the low rental character of the project as the corporation may agree to;

The CHAIRMAN: He explained that yesterday.

Mr. FLEMING: No. Yesterday we were dealing with families of low income. This has to do with measures to maintain the low rental character of the project.

The WITNESS: I can think of one case where the latter part of that clause would be applicable and that is where the employer or some other institution was making a rent reduction fund available. You have other factors enter, where the rule of general application requires special modification. I can think of another case, that of old age pensioners, who probably would have to spend a rather larger proportion of their income for shelter than would be appropriate for a family with four children. We would want the opportunity to fit local circumstances and individual cases such as is suggested by the latter part of subclause (a).

The CHAIRMAN: Carried.

Section 17.

17. (1) The Corporation may with the approval of the Governor in Council, make a loan to a borrower engaged in the mining, lumbering, logging or fishing industry, to assist in the construction of low or moderate-cost housing projects in areas or localities that are adjacent to or connected with the operations of the borrower.

Mr. HEES: I have an amendment to section 17, subsection (1), the third line; after "logging" eliminate the word "or" and after the word "fishing" add "or other industry". It would then read: "mining, lumbering, logging, fishing or other industry". I might point out that in discussing this with Mr. Mansur earlier I asked him what the findings of Central Mortgage and Housing Corporation had been with regard to the arrangements with these particular types of company. He said that they had been very good, but I asked him if he had not considered that it might be a good thing to permit all types of industry to enter into these arrangements.

The CHAIRMAN: I am not sure that you are quoting Mr. Mansur verbatim. He will speak for himself in a minute.

Mr. HEES: I have the words here.

The CHAIRMAN: That was not the impression that I got.

Mr. POULIOT: It is not Mr. Mansur who will decide it; it is the committee. It is a change from primary to secondary industries.

The CHAIRMAN: The point I was trying to make was, that the minister was not of that point of view. I did not know Mr. Mansur was of that opinion, although I did not talk to him.

Mr. POULIOT: We are not bound by his opinion.

The WITNESS: I would think if it was desirable to provide a section that could be used by industry, most of which is urban, that there are certain features in this primary producers' clause which would not be entirely satisfactory. You may notice that the period of amortization to date has been 15 years. I don't think that would quite fit, say, an industry on the fringe areas of one of our larger municipalities. I believe that there would be the greatest of trouble in drawing regulations for primary industries in a form that would also be suitable for industries in the metropolitan areas. We are dealing with two rather different types of housing. As to whether it is desirable to make provision for the ownership of such housing by industries, is, I believe, a matter for the government. I have no instructions from my minister to say that it is either a good or a bad idea. I am merely suggesting to the committee that this particular clause, in my opinion, would not really completely fit the needs of industry in the metropolitan areas.

By Mr. Hees:

Q. But you feel that some similar type of arrangement—maybe not exactly the same, but a similar type of arrangement—in your opinion, based on your experience with these four types of industry, would be a desirable way of providing good low-cost housing for people?—A. If industry would use either an adaptation of this or, what is even easier, the section dealing with rental housing in the Act itself—

Q. What section is that?—A. It is under the rental portion of Part I. I think it would be a fine idea if we could get some housing in that fashion. I quite agree with you. I have some doubts as to the willingness of industry to do it, and I have greater doubts as to the effectiveness of clause 17 to meet their needs other than in the outlying areas, where housing is movable, on skids, and housing that is not normally mortgageable.

Mr. POULIOT: Mr. Chairman, if I am permitted. Now, in this subsection the four primary industries of this country are mentioned, the four basic industries. Now, if you strike out “or” and add after “fishing” the words “or other”, it would be just as well to strike out the words “the mining, lumbering, logging or fishing” and replace them all by “any”. It would read: “to a borrower engaged in any industry”. It would be the same thing as the amendment that was suggested by Mr. Hees. Now, it would be a formidable change, because the hardships of those engaged in primary industries are much greater than those who are engaged in secondary industries, and the condition is not at all the same. Those engaged in primary industries are out in the country, sometimes far away, whilst those in the secondary industries are in the towns and have many facilities which those engaged in primary industries do not enjoy. It is up to the committee to decide. I am just bringing to the attention of the committee that we are here to support what we find most acceptable to all, and to support you, Mr. Chairman.

The CHAIRMAN: I have no position here other than your chairman. Mr. Henderson?

By Mr. Henderson:

Q. What I had in mind, Mr. Mansur, was do we not consider agriculture a primary industry?—A. There are two or three considerations, Mr. Henderson. First, the farms are covered by a separate section, and secondly there are not very many industries engaged in farming, and thirdly, a farm house is of a more permanent nature than is contemplated by this clause, and would require a longer period of amortization than the 15 year period contained in the clause.

Q. When you drive through the country, you usually see large farms consisting of a large farm house, and two or three small houses where the hired men or the young sons live. It is very encouraging to keep the young men on the farm. What provision is made for a farmer who wants to expand his operations and encourage his son to stay home? Where can he get a loan to build a house?

Mr. APPLEWHAITE: May I ask a leading question?

The CHAIRMAN: Perhaps Mr. Mansur should first answer Mr. Henderson.

The WITNESS: There is provision under clause 7, subclause 1(b) (iii).

Mr. HENDERSON: I am very sorry, but that does not answer my question. The way I look at it, the farmer does not own the farm. I am not talking about a farmer who owns his farm. What provision is there for a farmer who needs a house to shelter his hired labour or his sons who want to stay on the farm? They would not come within that section. The farmer could not do it?

The WITNESS: I do not like to disagree, but the loan is made to the farmer, and the farmer owns the land. The loan is made to him as a rental housing loan on a house which he can rent or give to his son or rent to the people who work for him.

The CHAIRMAN: Mr. Hees?

By Mr. Hees:

Q. Mr. Mansur, I take it that my suggestion is not acceptable under this clause. You intimated that there was a clause under which it would be acceptable. Would you tell me which it is and I will bring it up later when the bill comes before the House?—A. Rental housing can be made under the provisions of clause 7. Any company which wishes to build houses for its employees, and we have had some of them, can proceed under Bill 102, clause 7, to build rental housing on the basis of an 80 per cent loan, if the rentals are in the economic range. If they have employees whose incomes are insufficient to pay economic rentals then that company, as a number of them have, can form a limited dividend company and proceed under the provisions of clause 16.

Q. In clause 17 you say the arrangement you make with these 4 specific types of companies would not be satisfactory for an urban company. It seems to me you are doing the same thing. I would suggest that we eliminate the words under housing project and make it not necessary that the housing be adjacent to the place of employment; but if, for instance, Massey-Harris in Toronto desired to go into this kind of project to build houses in an outside area for its employees, is there any reason why they could not do so the same as a logging company in some remote area?

The CHAIRMAN: They can under clause 7. Clause 7 is available to Massey-Harris or any other corporation and it is therefore up to them if they will invest.

Mr. HEES: Do they get exactly the same protection as a mining or logging company?

The CHAIRMAN: I do not know.

The WITNESS: There is an interest rate differential.

Mr. HEES: What is it?

The WITNESS: It has been three quarters— $4\frac{1}{2}$ as against $5\frac{1}{4}$ per cent.

By Mr. Hees:

Q. Is there any reason why urban companies could not get the same rate of interest as these companies operating in far-flung areas? What is the difference between the types of employees?—A. It is a matter for the Governor-in-Council to determine the interest rate.

Mr. ADAMSON: Have you advanced a loan at Lynn Lake?

The WITNESS: I do not think we have a loan at Lynn Lake—not that I know of.

By Mr. Hellyer:

Q. Under subclause 1, does logging cover pulp and paper operations?—A. Yes, but it does not cover the manufacture of paper.

Q. Where do you draw the line?—A. I think the line is drawn on whether the houses are in the woods or in the paper town.

Mr. FRASER (Peterborough): Would it cover a mill that is making plywood?

The WITNESS: I do not think it would. I think it is for the primary industry of logging and lumbering. I think it would cover an operation where they are cutting on the logging site, but I do not think it would cover the fabrication of plywood or mill work.

The CHAIRMAN: Clause 17: "Loans to borrowers engaged in mining, lumber, logging, or fishing"?

Mr. TUCKER: Did you say clause 17 stands?

The CHAIRMAN: Clause 17 carries as is.

Mr. APPLEWHAITE: There is an amendment.

The CHAIRMAN: Mr. Hees dropped it. The whole of subclause 8 was dropped out of clause 17.

Does clause 17 carry, as amended?

Carried.

Clause 18: "Regulations by Governor-in-Council" is carried as amended. There are two small amendments in words—"may" and "further".

Clause 18 (2):—Page 22—in line 37, strike out "may" and substitute "shall"; and in line 38 strike out "additional" and substitute "further".

Carried.

Clause 19—there was a slight amendment in clause 19, in subclause (6) (a): "Approved lenders designated".

Carried.

By Mr. Pouliot:

Q. There is something with regard to life insurance companies in this section. Could we get some information about the assets of the fire insurance companies? Could not Mr. Mansur tell us something about the amount of the assets of the fire insurance companies?—A. Mr. Pouliot, the assets of the fire insurance companies, which I do not have before me at the moment, are very much smaller than those of the life companies because, as you know, the premium is for a three-year period. There is no building of a reserve other than the unearned premium during the three-year period. The result is that the fire companies have no long-term assets to invest as do the life companies, and it is generally the practice in the fire insurance business that the assets are kept in very liquid form to the extent that surpluses and reserves are present. Fire companies are always subject to fire catastrophe, and I do not think, Mr. Pouliot, we could look to any considerable sums held by the fire companies as a likely source of investment for long-term investment for housing purposes.

Q. Did you know, Mr. Mansur, that very often the assets of insurance companies which are not Canadian-owned are sent to the main office of the company over in the United Kingdom or the United States and we cannot use their assets to promote Canadian business?—A. Well, Mr. Pouliot—

Mr. FRASER (*Peterborough*): A certain amount of that has to be held here in Canada.

Mr. POULIOT: Yes, but a much smaller proportion, as you know.

The WITNESS: As at the end of 1952, the assets of fire insurance companies operating in Canada who had mortgage loans were \$120 million, and they held mortgage loans of \$6,600,000, which indicates, as I suggested earlier, that they like to keep their assets in very liquid form because of the nature of their business.

Mr. POULIOT: So they may send them outside?

The WITNESS: I have not the figures with me, Mr. Pouliot, in respect to the earnings of non-resident fire companies which were remitted to their parent companies. I do not know what that figure is.

Mr. POULIOT: That is what I would like to know.

The WITNESS: I think I could get that figure for you.

Mr. POULIOT: If you would be kind enough, I would be very grateful.

The CHAIRMAN: Clause 19 as amended.

Carried.

Clause 20: "Aggregate principal amount guaranteed?"

Carried.

Clause 21.

Mr. HELLYER: I have one question on clause 21. Is there a restriction in the Canadian and British Insurance Act preventing them from acquiring land for land assembly purposes?

The WITNESS: Yes, generally the Canadian Insurance Act, which is the basic one, provides that a life company may only buy real estate for their own business use. By a recent amendment there was introduced what they call the "basket" clause whereby a Canadian Life Company can invest 3 per cent of its assets in forms not normally allowed as a life insurance company investment. In answer to your question, therefore, they are prohibited from acquiring land for land assembly purposes save only to the extent they do it within their 3 per cent "basket" clause.

Mr. HELLYER: Then, do you think this provision is attractive enough to encourage life insurance companies to assemble land now?

The WITNESS: Mr. Hellyer; I think that the clause itself is attractive enough. We have had 8 assemblies, I think, under the parallel clause. The difficulty lies not in the financial provisions of the clause, which I understand the life companies consider adequate, but rather that they have found that this business of assembling land, putting in the services, is an operation with which they are not very familiar. I think they were all disturbed by the amount of work which was involved and doing it in a field in which they did not feel too comfortable. I may say, Mr. Hellyer, I am very disappointed that the clause has not been more successful because I hoped when it came out that it really held the answer.

The CHAIRMAN: Clause 21.

Mr. ADAMSON: I have one question on clause 21. I notice that in these two long clauses that you make specific mention of planning, and bringing in an architect, and seeing that the environment is satisfactory. I think that is good, but did you ever consider bringing in those regulations—I will not say regulations, but those restrictions—to the entire Act? If they are valuable in these two sections, they should be valuable throughout the entire Act?

The WITNESS: At one stage, Mr. Adamson, rather more generous financial loaning arrangements under the Act were provided in areas that met certain requirements in the planning. In actual operation this was very difficult. There were subdivisions already registered and there always came a question, as to whether they were in the unplanned category or the planned category. It became almost impossible to administer. In Ontario the situation has improved tremendously, because acreage must conform to the very idea contained in this section. We are putting in more and more requirements that before we approve a project, the project must go through our planning group

before we give approval for loans. I think the present technique is making more progress than the rather arbitrary technique we had before when someone had to determine whether the land was planned enough for the more favourable terms or was not planned enough.

Carried.

The CHAIRMAN: Clause 23.

Mr. HUNTER: Mr. Chairman, I would move that an amendment be made to clause 23 subclause 1 by eliminating the words "slum areas or", line 2, so that it would read "modernization of blighted or substandard areas in any municipality". Mr. Johnston is prepared to second that and Mr. Henry is here to speak on the amendment.

Mr. HENRY: Mr. Chairman and gentlemen I am speaking in support of the motion made by my colleague.

My first words are those of thanks to the chairman for his invitation to appear here to give you my views as to the desirability of removing the word "slum" from section 23 (1) of the legislation now before you.

1. The purpose of this legislation is adequately stated in the preamble:

An Act to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.

In a history making speech before parliament, the minister has been able to obtain almost unanimous approval of the House as to the principle of this legislation. Practically all members recognize that this legislation is history making from the standpoint of fulfilling human needs in housing for Canadians and this accounts for the wide endorsement of the legislation in principle. However, I submit that by including the word "slum" in section 23 (1) of the Act, the legislation goes beyond the field of housing and offends unnecessarily the Canadian idea of "dignity" and "respect for the individual".

2. Generally, the word "slum" indicates sub-standard or blighted housing conditions where "poor or low" people live. It is apparent that the purpose of the legislation before you is to promote housing, and not to create any particular class of citizens deemed to be "low". Canada prides herself on the fact that we have no second-class citizens. I thank the minister for his letter which shows to me, in effect, that he is prepared to meet my wishes as to the principle of removing the word "slum" from section 23 (1), subject to the form that will be worked out by his law officers in the Department of Justice.

The Right Hon. Prime Minister has set a noteworthy example for all those in public life seeking to promote housing under section 23(1) of the Act, by careful use of language and avoiding the word "slum", all of which appears from his Toronto speech made several years ago at an event marking the opening of Regent Park Housing Project. I quote the Prime Minister:

Regent Park will serve as a model in the practical application of the clearance provisions of the National Housing Act.

Speaking on behalf of all the citizens of Toronto, and particularly those of the area concerned, the Toronto housing authority in charge of the project has been careful to state in its official literature as follows:

Toronto has no slums in the general accepted meaning of the word, but in the downtown section there are a number of substandard residential areas and their redevelopment had long been the goal of civic minded persons.

Mayor Robert Saunders, First Chairman, Toronto housing authority.

As a top ranking representative of Toronto, this project was initiated largely at the instigation of the then Mayor Robert Saunders. In a speech,

marking the opening of the project, he was careful to keep his remarks within the framework of the housing field, and to avoid tagging the area as a slum. I quote him:

No city could afford not to re-develop its substandard areas.

By removing from line 2 of section 23(1) the words "slum areas or" and the words in the margin relating "of slum areas", you eliminate reference to slums in this legislation and carry out the principle which I wish to see accomplished consistently with the public statements of the Housing Authority of Toronto which is the only public body to utilize the clearance provisions of the legislation for public housing to date. If this be done, I think the section may well become known, in future, as simply the clearance section of this legislation, as mentioned by the Right Hon. Prime Minister.

4. "Slum" is just a word until it is applied to your own home and your own home city. Gentlemen, the day may come when your home municipalities may choose to seek the re-development benefits of section 23(1) of the Act and I urge you to take steps now to correct a situation which may prove very distasteful to you in the event that a part of your home municipality shall become tagged as a place where "low people" live. I welcome the fullest expression of views on the part of all of you as to the ideas which I have expressed before you in this matter.

Finally may I say this. I have a wire here from the business men of Ward Two Business Men's Association in the city of Toronto whom I have the honour to represent in the House. It is signed by a gentleman who is the secretary, and the wire supports the amendment. These business men include amongst their members the secretary himself who is a noteworthy opponent of mine at election time, a member of the Progressive Conservative party, and another member who is a hard working alderman for the area, William Dennison. All the gentlemen agree unanimously in the submission I am making for your earliest consideration.

Mr. APPLEWHAITE: Change the word "slum" in the marginal note to read "substandard".

Mr. FLEMING: May I ask Mr. Mansur what is the term used in the United States legislation? Was "slum" used there? Or the United Kingdom legislation?

The WITNESS: I think that the United States legislation refers to the clearance and re-development of blighted and substandard areas. I have an idea—and I hesitate to say this because I am not sure of it—but I think they dropped the word "slum" from their legislation. I am sorry—I am wrong. Title IV page 71 of the bill sponsored by Senator Capehart, S. 2938, is headed Slum Clearance and Urban renewal.

Mr. FLEMING: What about the U.K. legislation?

The WITNESS: The usual parlance in the U.K. is "black and grey areas." Black being the equivalent of slum, and grey being deteriorating areas put on notice that unless the housing is improved when expropriation comes forward after a given period of years no allowance will be given to expropriated owners for houses that have not been reconditioned. I doubt if the word "slum" is used in Great Britain as it is here.

Mr. TUCKER: Actually the Act refers to the same area. In other words blighted substandard areas would include the areas covered by slum areas. It would cover the same situation. Is that not right?

Mr. CANNON: The word "substandard" is wide enough in scope to cover slums.

The WITNESS: I believe that the expression "blighted or substandard area" is probably broad enough to do what the clause is meant to do—that is to clear slums.

Mr. PHILPOTT: That same thing would apply to clause 5 of that same section, second line?

The CHAIRMAN: Yes.

Mr. ADAMSON: There is a lot of merit in the word "slum" because the very discussion here this afternoon shows how people resent it if you call a place a slum; and if you call a place a slum you almost immediately get action or re-action and get something done. I am not sure that we are doing away with an offensive word—and I think it is an offensive word. I agree with what has been said about it, but I had a blighted area in my riding which I called a "slum" and there was an immediate hostile reaction, but it was cleared up. If I had called it a "blighted area", no one would have paid any attention, but if I call it a "slum" they say we are going to fix that. I am not sure that we are not destroying a good operative word—a nasty word I grant— but it describes a nasty condition and I am merely speaking of it from the point of view of getting action in clearing slum districts.

Mr. APPLEWHAITE: The member of any district can still refer to the word "slum" but we do not have to make it a slum by statute.

The CHAIRMAN: The amendment is that we strike out the words "slum areas or" from clause (1) in clause 23 and subclause 5, and the word "slum" on page 30, line 27.

Mr. HUNTER: And the two words "slum" in the marginal notes.

The CHAIRMAN: Yes, the two words in the marginal notes in subclause (1) and subclause 5. Does that carry?

Carried.

Part V. Clause 24 has already carried. Part IV has carried. We have had an explanation on it and it now carries.

Clause 25 had been carried.

Does clause 26 carry?

Carried.

Does clause 27 with a small amendment carry?

Carried.

Clause 28 had been carried and clause 29 had been carried. Now, clause 30.

Amounts payable out of Consolidated Revenue Fund

30. At the request of the Corporation the Minister may, out of the Consolidated Revenue Fund, advance to the Corporation, upon terms and conditions approved by the Governor in Council, such amounts as the Minister considers necessary to enable the Corporation to discharge its obligations under this Part.

Mr. FLEMING: The point on clause 30 is this: I think this part of the bill, namely Part IV, follows quite closely the provisions of the present Act, and it is only in clause 30 that there is a departure. The present section 33 of the National Housing Act reads as follows:

33. The Minister may pay any amount payable to a bank or an approved instalment credit agency under this Part out of unappropriated moneys in the Consolidated Revenue Fund.

The new section or clause brings the Central Mortgage and Housing Act actively into the picture. The minister may act apparently only on the request of the corporation and here he advances money to the corporation. I wonder if Mr. Mansur would enlarge on the change and the reason.

The WITNESS: The difference is this: under the old Part IV there was no premium payable. But now under the new arrangement Central Mortgage and

Housing Corporation will be in receipt of premiums which they can use to pay losses to the banks. So it may well be the case that we won't have to draw upon the minister because there will be enough premium income to meet claims from the banks as they arise. That was not, of course, the case under the earlier Act where no such insurance premiums existed.

Mr. FOLLWELL: Under this Act what happens to the money if you are very successful and build up a nice big fund?

The WITNESS: It will go to the Consolidated Revenue Fund as earnings of the corporation.

The CHAIRMAN: Carried.

Mr. JOHNSTON: That was clause 30?

The CHAIRMAN: Clause 30 is carried.

Clause 31 was adopted yesterday. Clause 32 was adopted and there is a paragraph in clause 33. Did someone raise a question there?

Competitions

- (d) conduct competitions to secure plans, designs and specifications that in his opinion are suitable for housing to be constructed at low cost, and purchase the said plans or otherwise compensate persons taking part in the said competitions;

The WITNESS: Mr. Hellyer raised a question as to whether in subclause (d) on page 37, that word "is" was correct, or whether it ought to mean "its". I think Mr. Hellyer's point is well taken and it should read "its" rather than "his".

The CHAIRMAN: You caught it, Mr. Hellyer. That is very good, very good!

The WITNESS: Line 32.

The CHAIRMAN: That was the correction suggested by Mr. Hellyer.

Carried.

Shall clause 34 carry?

Advisory Committees

34. The Corporation may, with the approval of the Minister, for the purpose of assisting it in carrying out its responsibilities under this Act, appoint such advisory committees as it may deem advisable and may pay the reasonable travelling and living expenses incurred by the members of the advisory committees while attending the meetings thereof.

Mr. FLEMING: Clause 34 is the same as the present section 37?

The CHAIRMAN: Yes.

Mr. FLEMING: But is more use to be made of this provision in the future for the appointment of advisory committees?

The CHAIRMAN: I hope so.

The WITNESS: At the present time we have one advisory committee, under the provisions of the section. It consists of representatives of the four universities through which we are running quite a successful educational program in the field of land planning, community planning, and matters related to housing. During the evidence of the last couple of weeks it was indicated that there was a desire that the advisory committee idea be exploited somewhat more by Central Mortgage and Housing Corporation than had been the case in the past. I may say that I was quite impressed with the representations, and I wondered whether some errors of omission had not been committed. I think, Mr. Fleming, that there are certain troubles in advisory committees. My experience, while it may be rather limited, is that the more executive power a committee has the more effective it is. Nevertheless I believe that a desire has now been made

known by certain groups—and it was done in a much more forceful fashion than ever before—and if that desire really exists, then I think it is the responsibility of Central Mortgage and Housing Corporation to recommend to the minister that such advisory committees be organized.

The CHAIRMAN: Very well.

Mr. FLEMING: Speaking for myself, I was impressed by what you said in your evidence and I think that while some advisory committees, I suppose, without responsibility, become irresponsible, nevertheless, if such committees are well selected, I think they can contribute helpful ideas.

The CHAIRMAN: Does section 34 carry?

Carried.

Clause 35 has already been carried and clause 36 was carried. Clause 37.

PART VII.

GENERAL.

Powers of Corporation.

37. (1) The Corporation may, out of moneys advanced to it under subsection (7),

- (a) acquire land or housing projects by way of purchase, lease or otherwise;
- (b) install services in and effect improvements to or in respect of land acquired by it and develop and lay out such land for housing purposes;
- (c) construct, convert, or improve housing projects; and
- (d) acquire building materials and equipment and other personal property for use in connection with housing projects.

Idem.

(2) The Corporation may

- (a) hold, operate, manage, heat, maintain, supervise, alter, renovate, add to, improve, repair, demolish, and salvage properties acquired by the Corporation;
- (b) acquire from Her Majesty the leasehold or other interest of Her Majesty in houses or housing projects;
- (c) sell, lease, exchange or otherwise dispose of real or personal property acquired by it pursuant to this Act or the *Central Mortgage and Housing Corporation Act*;
- (d) obtain the participation of municipalities in housing projects; and
- (e) enter into contracts to carry out and do other acts or things incidental to the purposes of this section.

Transfer of Crown lands to Corporation.

(3) The Governor in Council may by order transfer to the Corporation any lands or interest therein vested in Her Majesty and thereupon the lands or interest therein so transferred shall be deemed to be vested in the Corporation on a date to be fixed in the order.

Lands acquired pursuant to Loan.

(4) Whenever lands are acquired in the name of Her Majesty pursuant to this Act, the *National Housing Act*, chapter 188 of the Revised Statutes of Canada, 1952, *The Dominion Housing Act*, 1935, or *The National Housing Act*, 1938, the lands shall be deemed to be vested in the Corporation.

Property subject to Central Mortgage and Housing Corporation Act.

(5) Property acquired by the Corporation pursuant to this section and the proceeds of sale thereof and the revenue therefrom are subject to the provisions of the *Central Mortgage and Housing Corporation Act*. Corporation may pay certain taxes.

(6) When real or immovable property is acquired by the Corporation or Her Majesty pursuant to this Act or the *Central Mortgage and Housing Corporation Act*, the Corporation may pay to a municipality or other taxing authority an amount equivalent to the taxes that might be levied in respect of the property or of the interest of the Corporation or of Her Majesty therein by the said authority if the property or interest were not so acquired, and may enter into such agreements as may be necessary to give effect to the provisions of this subsection.

Advances.

(7) The Minister may, out of moneys appropriated by Parliament for the purposes of subsection (1), make advances to the Corporation, on such terms and conditions as are approved by the Minister of Finance, and the Corporation shall give to the Minister in respect of such advances, debentures or other evidences of indebtedness as the Minister may require.

By Mr. Fraser (Peterborough):

Q. In regard to clause 37, I know that in Peterborough you acquired property there as you will notice according to this advertisement of Central Mortgage and Housing Corporation. What response did you have to that sale there in Peterborough, or have you had any, so far?—A. It is too early to say, Mr. Fraser. You will remember that this was done not out of moneys appropriated by Parliament for the purposes of clause 37.

Q. No. I understand that.—A. We are working under a federal-provincial arrangement.

Q. That is right.—A. We are very hopeful at this point, Mr. Fraser, but I cannot answer your question. I think that probably it is a little early to assess it because one of the elements in selling the lots is the mortgage financing that might be available to build houses on those lots during the current year. There is a bit of a hiatus in the whole mortgage lending business while this bill is receiving consideration.

Q. On the terms here it says "cash in full or 10 per cent with offer to purchase and balance including interest at 5½ per cent within six months of the date of closing". Under this, I imagine that you would have the same set-up under this clause. The purchaser of the lot has to start to build within six months. This clause covers the same?—A. This clause 37, Mr. Fraser, really does not contemplate land assembly. It contemplates a direct construction operation by the corporation to the extent that money is voted by parliament for such purposes. Two cases in point are the Department of Transport's activity in Gander and the Atomic Energy of Canada at Deep River. It was never contemplated to acquire land for subsequent sale to home owners under clause 37. That was thought to be an operation that should go forward under the federal-provincial arrangement.

Q. You have it here, "install services".—A. Yes, as we had to in Gander.

Q. And Deep River?—A. Yes.

Q. Now, in getting back to this set-up here, you have that the highest price is \$1,775, but you state the house type that must be put on it?—A. That is right.

Q. They don't have to stick to your plan?—A. No. On the very point Mr. Adamson was making a few moments ago, we are trying in these sub-

divisions to put in a suitable variation. If, for instance, we were selling a corner lot, I think we would want something more than a small bungalow on the corner lot particularly if there was an entry road coming into the project at that point. What we are trying to do is this, Mr. Fraser; rather than having one section of bungalows and another section of one storey and a half, and another of two stories, we try to mix them rather than to have the terrible repetition which we see in some of our better known communities.

Q. So you don't know which house is yours when you go home at night.

Mr. ADAMSON: I might interject: "to prevent the housing development from becoming that horrid four-letter word".

Mr. FRASER (*Peterborough*): This subdivision that they have here is excellent.

The WITNESS: It has no land increment in it for the subdivider.

The CHAIRMAN: Section 37.

Carried.

Clause 40.

Carried, as amended.

Clause 43.

Someone asked that it stand. There is an amendment to clause 43.

Adopted with the amendment.

I want to refer for a moment to clause 9, page 11. There was a question raised by Mr. Fleming.

9. (1) Where an approved lender holding or administering an insured loan secured by mortgage acquires titles to the mortgaged property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceedings or at the date of acquisition otherwise than by foreclosure;
- (b) approved borrowers' charges made before and after the date of commencement of foreclosure proceedings or the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)
 - (i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or
 - (ii) for a period of six months,whichever is the shorter period;
- (d) where the default period in respect of any amount specified in paragraph (a) or (b) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount and on the amount specified in paragraph (c)
 - (i) for the period of such excess, or
 - (ii) for a period of twelve months,whichever is the shorter period, if immediately after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly,

semi-annually or annually, the approved lender holding or administering the loan satisfied the Corporation that adequate steps were being taken in respect of the said account; and

(e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation; less two percent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account during the default period shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, and secondly to the amount owing on the mortgage account as principal, including borrowers' charges.

(2) No payment shall be made under subsection (1) unless

- (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
- (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

(3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

(4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1), if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

The WITNESS: Mr. Chairman, I wonder if on this particular clause you would be willing to call Mr. Woodard to speak to the committee, because he is the man who has been doing the calculations and has been running into the trouble in connection with the wording of this clause. I understand from Mr. Woodard that he has some reservations about the further amendment.

The CHAIRMAN: We are dealing with clause 9, and I thought we had reached an agreement on the wording.

Mr. HELLYER: Are all the other things carried?

The CHAIRMAN: The rest of the clause has been carried.

Mr. WOODARD: Speaking of the amendment proposed by Mr. Fleming, it seems to me—

Mr. CANNON: What is the amendment?

The CHAIRMAN: Page 11, line 35, the word "amount" is "amounts", and then strike out the word "specified in" and put in "determined under". That is, "determined under paragraph (c)". That is the suggested amendment.

Mr. FLEMING: This means that instead of following the form of the long revision of clause 9 in this particular respect, this form that was circulated yesterday, we go back to the original wording and make what is in effect one change, because the amount in fact is not specified in (c). It is an amount you will arrive at after making a calculation according to the method laid down in (c). Therefore, it is not appropriate to say that it is specified in (c). It is the amount determined under (c). There was a question raised about going back to the original wording, and that may be Mr. Woodard's point.

Mr. WOODARD: With Mr. Fleming's amendment, as I undersand it, we practically go back to the words as in the original bill. To calculate any amounts of interest at any time, you need three things: namely, a principal amount, an interest rate, and a time period. If we accept the amendment as proposed, we have the principal amount; being item (c); we have the rate, which is the mortgage rate less two; but we are left completely without a time period.

Mr. FLEMING: I suggest, Mr. Chairman, that you have just as much time as you have in the revision that was put before us.

Mr. WOODARD: In the revision before you, you have a reference to the time.

The CHAIRMAN: Here is a man who has to administer the bill. He knows full well what it means. He is a very capable man.

Mr. WOODARD: Might I add an example? We endeavoured to give the committee an example of how a loss settlement actually worked out. If you will notice—and I must make this confession—the example is adjusted to this extent, that there are no interest arrears shown in that example. The reason was that it was obviously impossible for any accountant, with whom I checked, to calculate an example for inclusion in the proceedings if there was any interest arrears in such example. Therefore, we selected an example in such a way that the default occurred for other reasons than interest arrears. If we accept Mr. Fleming's amendment, we are right back where we started on the question. That is my feeling.

Mr. TUCKER: It seems to me that if there is any doubt all you need to do is to say under (d) (i): "for the period of such excess over said six months"; that means that you are calculating the excess over and above the six months separately, which I understand you want to do, and it makes it very plain that you are counting the excess over six months as separate from the six months. If you said, "for the period of such excess over said six months", and then, "for the period of twelve months over or in addition to the said six months", that makes it very plain that you are taking the six months, and when that runs over the six months then you are taking the excess over the six months. By putting "for a period of such excess over said six months" in (i); and in (ii), "for a period of twelve months in addition to the period of six months referred to in (c)", it makes it very plain.

Mr. WOODARD: At first sight, I think you probably have a solution.

The CHAIRMAN: Well, we are in this position. No one is prepared to take the responsibility for making any change in this Act at the present time. This has to be "vetted" by the Department of Justice.

Mr. TUCKER: I suggest that this is just making plain what was intended, and we can take the responsibility for making something plain without going back to Justice.

Mr. CANNON: I think the clause is clear as it is, for a lawyer looking at it.

Mr. HELLYER: I think just the reverse.

Mr. CANNON: I think it is clear without adding anything.

Mr. HELLYER: I submit that lawyers would be just the people who would try to take hold of it.

Mr. WOODARD: While Mr. Tucker's suggestion might correct the defect in (d), now under discussion, I'm afraid it might create another defect, namely, the calculation of the additional interest in (d) as applying to items (a) and (b).

The CHAIRMAN: Mr. Tucker, what you suggest is that after the words "six months" we insert "for a period of such excess over said 6 months."

Mr. TUCKER: Or for a period of 12 months in addition to the said 6 months.

The CHAIRMAN: This section is the result of considerable thought. It may mean a different thing to each one of you, and undoubtedly it may have a different meaning to each lawyer, but it is better that we leave it as it is. It may be even good for the law business, who knows?

Mr. TUCKER: It seems clear to me what it means, but just for the sake of ending the argument, I made that suggestion. I have no doubt it is clear now.

The CHAIRMAN: Mr. Tucker, we are very thankful. I thought you had something for a moment, but the man who has to administer it doesn't think it is quite as clear as I think it is. Clause 9 stands as it is.

Mr. FRASER (*Peterborough*): I think that that last remark of yours, "It should be good business for the lawyers," is not a good observation.

The CHAIRMAN: Please let us not be too serious about that. That was a facetious remark. The lawyers around this table will not benefit from this bill because they are prohibited.

Mr. FRASER (*Peterborough*): Thank goodness for that.

Mr. FLEMING: It is unfortunate that under the pressure in this meeting this afternoon we have not had the opportunity of working out some formula that meets everyones point of view. The amendment I suggest met the approval of the several solicitors involved, but it is obvious that if this clause is approved now, it will have to be approved only tentatively, and will have to be considered before it comes up in the House, and I believe the minister will do that; but the clause as it stands, as you are inviting the committee to approve it now, is still open to doubt, and it should not be left that way. If you are passing it, Mr. Chairman, I think it should be with the understanding there will be representations made to the minister about it, and there will probably be an amendment, I trust, introduced in the House.

The CHAIRMAN: There can be no reservations as far as the committee is concerned. We report the bill, but you have indicated that there will likely be an amendment. I will certainly bring it to the attention of the minister. The clause stands without the amendment, carried.

Shall the title carry?

Carried.

Shall I report the bill as amended?

Carried.

Shall the bill be reprinted?

Carried.

On behalf of the committee I wish to express a word of appreciation to Mr. Mansur and to his staff for the information and assistance they have given us which helped us to arrive at a clear understanding of the bill. I want particularly to thank Mr. Mansur for the manner in which he has given his evidence, which has very much impressed this committee. Mr. Mansur has confirmed our sense of confidence in him, and in the administration of Central Mortgage and Housing Corporation.

Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. Mansur has no doubt reached this conclusion himself, but I also wanted to say that if he should be criticized for building too many houses, this committee will be glad to come to his defence.

Let me say just one word to the members of the committee. I personally have a very deep sense of appreciation for your co-operation. We crossed party lines and we tried to bring about the best possible bill. This has been a hard

working committee. You have been serious minded and business-like, and I feel that as chairman I should express my personal appreciation.

Mr. POULIOT: I am very glad to support what you have said, but I must add one more reference. It is my opinion, and the opinion of this committee, that you have been an ideal chairman. You have been very patient with us, and have worked very hard to bring about a speedy conclusion to our discussions. I wish to say "Thank you" on behalf of the members of this committee and to congratulate you.

The CHAIRMAN: Thank you.

Appendix "A"

PROPOSED TECHNICAL AMENDMENTS TO BILL 102

An Act to Promote the Construction of New Houses, the Repair and Modernization of existing Houses, and the Improvement of Housing and Living Conditions.

Clause 2(19): Page 3—in line 22, strike out "one-family dwellings" and substitute "houses"; in line 23, strike out "one-family" and substitute "houses".

Clause 2(28): Page 4—in line 6, strike out "house" and substitute "building" and in line 7 strike out "two" and substitute "three".

Explanation:

In the Bill the definition of "multiple-family dwelling" and "house" overlap, in that both include the two-family house or duplex. In order to correct this, it is proposed to define "multiple-family dwelling" as a building containing three or more family housing units. This change makes it necessary to amend the definition of "housing project" in paragraph (19) of clause 2.

Clause 3(a): Page 4—in line 42, strike out "insurable" and substitute "approved".

Explanation:

The expression "approved loans" which is defined in paragraph (3) of clause 2 of the Bill is more definite than the expression "insurable loans", which is not defined.

Clause 4(1): Page 5—in line 16, insert the words "to be" immediately before the word "made".

Explanation:

This proposed amendment is for the purpose of making it clear that any change in the maximum interest rate prescribed by the Governor in Council will have application only to loans made after the change and will not affect the rate of interest in mortgages existing at the time the change is made.

Clause 6: Page 6—strike out subclause (5) and substitute the following:

(5) Notwithstanding section 7,

- (a) where the Corporation is satisfied that an approved loan cannot be fully advanced in accordance with this Act, and instalments of the loan approved by the Corporation have been made, the Corporation shall at the request of the lender issue to the lender an insurance policy in respect of the aggregate of all instalments approved by the Corporation in respect of which the insurance fee has been paid;
- (b) where the borrower refuses to accept the unadvanced portion of an approved loan, the Corporation may at the request of the lender issue to the lender an insurance policy in respect of that part of the loan that has been advanced and on which the insurance fee has been paid; and
- (c) where a house or housing project is substantially completed and ready for occupancy but completion is delayed by reason of seasonal weather conditions, the Corporation may at the request of the approved lender and on such terms and conditions as may be prescribed by regulation issue an insurance policy for the full amount of the approved loan, if the insurance fee has been paid on the portion of the loan that has been advanced.

Explanation:

Subclause (5) of clause 6 of the Bill is repeated as paragraph (a) of this proposed amendment. Paragraphs (b) and (c) are added to look after special

cases. Paragraph (b) makes provision for the issuance of the policy of insurance in respect of a loan that has been reduced by reason of the refusal of the borrower to take the balance of the loan that has been approved in his favour. Paragraph (c) authorizes the issuance of the policy of insurance prior to the loan being fully advanced if there is a delay in the completion of the project by reason of seasonal weather conditions. This would have application where, for instance, there was some exterior painting to be done late in the fall which would have to be held over until the following spring. Unless this clause is included, the approved lender could not get the policy of insurance until the following spring. Because paragraphs (a), (b) and (c) are exceptions to the general rule it is necessary to provide that they shall have effect notwithstanding clause 7 which contains the specifications of an insurable loan in respect of which an insurance policy may issue.

Clause 6: Page 7—Add a new subclause as follows:

Calculation of insurance fee.

(9) For the purposes of this section the insurance fee shall be calculated on the amount of the approved loan or an instalment thereof, less the insurance fee component of the approved loan or the instalment thereof.

Explanation:

Because the insurance fee is included in the amount of the loan, this amendment is proposed to make it clear that the amount of the insurance fee is calculated only on the amount of the loan, exclusive of the insurance fee.

Clause 7 (1): Page 7—In line 16, add after the words "it was made" the words "by an approved lender".

Explanation:

This amendment is proposed to make it clear that the term "approved lender" is not confined to an approved lender that is subject to the jurisdiction of Parliament as referred to in clause 3.

Page 8—In line 39, insert the words "the other" before the words "one-half".

Explanation:

This is a matter of phraseology. It brings the paragraph into line with the wording of paragraph (f) of subclause (1) of clause 7 of the Bill. (See line 20, page 8).

Page 9—In line 32, strike out "the Corporation" and substitute "regulation"; in line 36, strike out "additional" and substitute "further".

Explanation:

The substitution of "regulation" for "the Corporation" is to conform with clause 12 (1) (d) of the Bill that authorizes the Governor in Council by regulation to approve the form of mortgage. The substitution of the word "further" for the word "additional" is made because of the fact that the expression "additional security" in bank practice is taken to mean security which is obtained subsequent to the making of the loan.

Page 9—insert the following paragraph after paragraph "(p)"

(q) when made to assist in the alteration of an existing residential structure, to add one or more family housing units thereto, it is for a term not in excess of fifteen years;

Explanation:

This provision was inadvertently omitted from the original Bill.

Page 10—in line 1, reletter paragraph "(q)" as paragraph "(r)";

Page 10—strike out lines 4 to 8 and substitute the following:

(s) it was advanced

- (i) on completion of construction as determined by the Corporation or,
- (ii) in the case of a loan the instalments of which are insured, in such instalments during the course of construction of the house or housing project as have been determined by the Corporation, or
- (iii) in the case of an instalment loan that is not to be insured by the Corporation until it is fully advanced in such instalments as have been determined by the approved lender;

Page 10—reletter paragraphs “(s)” and “(t)”, “(t)” and “(u)” respectively.

Explanation:

The proposed amendment will permit insurance of an instalment loan that is not to be insured until it is fully advanced.

Clause 7 (2): Page 10—in line 16, insert the words “approved loan or an” immediately before the word “insured”.

Explanation:

The proposed amendment permits capitalization of borrowers’ charges before the loan is fully advanced, as well as after.

Clause 9 (1): Page 11—in line 33, strike out “(a) or (b)” and substitute “(a), (b) or (c)”; in lines 35 and 36 strike out the words “and on the amount specified in paragraph (c)”; in line 39, strike out the word “immediately”; and in lines 46, 47 and 48, strike out the words “satisfied the Corporation that adequate steps were being taken in respect of the said account; and” and substitute “within the time prescribed by regulation notified the Corporation of such default and took such steps in respect of such account as were satisfactory to the Corporation; and”

Clause 9 (1): Page 12—in line 7, strike out the words “during the default period” and substitute the words “when it was in default”; in line 9, strike out the word “and”; in lines 10 and 11 strike out the words “the amount owing on the mortgage account as principal, including”; and add, after the word “charges” in line 11, “and thirdly to the principal owing on the mortgage account”.

Explanation:

The proposed amendments do not affect the amount of settlement but are designed to clarify the method of its calculation.

Clause 9: Page 12—add the following subclause:

Continuation of mortgage account

- (5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the Corporation.

Explanation:

Normally, at the date of foreclosure the mortgage account is terminated and the property in the hands of the lender transferred to real estate account. The proposed amendment makes it clear that the loss settlement will be based on the mortgage account as though it continued as such until the date of conveyance to the Corporation.

Clause 11 (3): Page 13—in line 25, insert after the word “sale” the following “except where the obligation is a loan acquired by the Corporation pursuant to subsection (1) or is a loan made pursuant to Part I under section 40”.

Explanation:

The Corporation has authority to sell loans pursuant to subclause (2) of clause 11. If an insurance premium has not already been credited to the insurance fund in respect of a loan that is sold, the Corporation is obliged to credit to the fund the amount of the insurance fee at the time of sale. If, however, the insurance premium has already been credited to the fund—as will be the case when the Corporation is selling a loan that is insured having been acquired from an approved lender or made by the Corporation under clause 40—no further credit is required to be made to the fund.

Clause 11: Page 13—Add the following subclause:

Losses

(4) Losses incurred by the Corporation in respect of a loan acquired by the Corporation pursuant to subsection (1) shall be charged to the Fund to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender and the mortgaged property acquired by the Corporation shall be an asset of the Fund.

Explanation:

The effect of the proposed amendment is to make settlements on Corporation held insured loans chargeable to the fund on the same basis as settlements on other insured loans.

Clause 12 (1): Page 13—insert between paragraphs (c) and (d) the following paragraph:

(d) prescribe the circumstances in which a chattel mortgage, an assignment of rents or other security shall be taken as further security for any loans made under this Part;

and reletter paragraphs (d), (e) and (f) as paragraphs (e), (f) and (g) respectively.

Explanation:

This paragraph is added so that the regulations may call for further security to meet special circumstances. For instance, under the present regulations a chattel mortgage is required on landlord equipment in a rental housing project comprising more than ten units.

Clause 12 (2):—Page 14—in lines 8 and 9, strike out “in connection with the making or administration of a loan” and substitute “for the purposes of this Part”.

Explanation:

This proposed amendment permits the prescription by the Corporation of forms respecting loan insurance as well as the making and administration of the loan.

Clause 15 (1): Page 16—in line 6, add immediately after “section 14” the following words “and sell or purchase loans made on rental housing projects the rentals of which are guaranteed by the Corporation pursuant to section 14, together with the security taken in respect thereof”.

Explanation:

By this amendment it is proposed to authorize approved lenders to deal in, as well as make rental insurance loans.

Clause 17 (8): Pages 21 and 22—strike out subclause (8).

Explanations:

The provisions of this subclause are substantially repeated in subclause (2) of clause 18 which has general application.

Clause 18(2):—Page 22—in line 37, strike out “may” and substitute “shall”; and in line 38 strike out “additional” and substitute “further”.

Explanation:

This proposed amendment is for the purpose of having provisions relating to further security under Part II conform with similar provisions under Part I.

Clause 19(6):—Page 24—in line 42, strike out “at” and substitute “or”; Page 25—in line 3, strike out “at” and substitute “or”.

Clause 27:—Page 33—in line 30, strike out “or” and substitute “and”.

Explanation:

These amendments are for the purpose of correcting typographical errors.

Clause 40(3):—Page 44—in line 18, add immediately after the word “Fund” the words “to the extent of the amount that would have been payable to an approved lender pursuant to section 9 if the loan had been held by the approved lender, and the mortgaged property acquired by the Corporation shall be an asset of the Fund”.

Explanation:

This proposed amendment is for the purpose of placing loans made directly by the Corporation under Part I in the same position in respect of loss as other insured loans.

Clause 40(4):—Page 44—in lines 20 and 21, strike out the words “pursuant to an agreement made under paragraph (f) of section 3”; in line 24, strike out the words “the said agreement” and substitute the words “agreement between the Corporation and the approved lender”.

Explanation:

Subclause (4) as presently drawn applies only to approved lenders mentioned in clause 3 of the Bill. This amendment will permit its application to all approved lenders.

Clause 43—Page 45—add the following subclause.

Reference to former Act

(10) A reference to the former Act in any other Act, or regulation made thereunder, shall be construed as including a reference to this Act.

Explanation:

The National Housing Act is referred to in other federal Acts. This proposed amendment will make such references applicable to Bill 102.

APPENDIX "B"

THE CO-OPERATIVE UNION OF CANADA

193 Sparks Street - Ottawa 4, Ontario

March 1st, 1954

Col. David A. Croll
Chairman
Standing Committee on
Banking and Commerce
House of Commons
Ottawa

Dear Col. Croll:—

In accordance with the request you made of us at the close of our presentation on February 17th, we are writing to suggest an amendment to Bill 102.

We feel that it would be satisfactory if Section 2(23) were amended by the inclusion of the words indicated by the underlined portion below:

2. (23) "Limited Dividend Housing Company" *including a co-operative housing association* means a company incorporated to construct, hold and manage a low-rental housing project, the dividends payable by which are limited by the terms of its charter or instrument of incorporation to five per cent per annum or less.

We realize that the term "co-operative housing association" has not been defined in the bill although it appears in several sections. If the Committee feels that our proposed amendment is too inclusive and that a definition is desirable we suggest the following:

"Co-operative housing association" means a co-operative association incorporated under the laws of Canada or any province for the purpose of acquiring, constructing, holding or managing a housing project primarily for its members.

If you care to inform us of the time at which this amendment is likely to be considered we are quite prepared to be on hand to provide any additional information that may be required.

Yours sincerely

R. S. STAPLES,
President.

Member of the International Co-operative Alliance

APPENDIX "C"

CLAUSE 9 OF BILL 102 CONTAINING THE PROPOSED AMENDMENTS.

Insurance Settlement.

Payment by Corporation upon conveyance of property.

9. (1) Where an approved lender holding or administering an insured loan secured by mortgage acquires title to the mortgaged property by foreclosure or otherwise, after default has occurred under the mortgage, and the title is conveyed to the Corporation, clear of all encumbrances except as provided for by regulation and within the time prescribed by regulation, the Corporation shall pay to the approved lender the aggregate of the following:

- (a) the principal owing on the mortgage at the date of the commencement of foreclosure proceeding or at the date of acquisition otherwise than by foreclosure;
- (b) approved borrowers' charges made before and after the date of commencement of foreclosure proceedings or the date of acquisition otherwise than by foreclosure;
- (c) interest at the mortgage interest rate on each amount specified in paragraphs (a) and (b)
 - (i) for the period (hereinafter in this section called the "default period") for which interest thereon was due or accrued, and unpaid, at the time of the conveyance to the Corporation, or
 - (ii) for a period of six months,
 whichever is the shorter period;
- (d) where the default period in respect of any amount specified in paragraph (a), (b) or (c) is in excess of six months, additional interest at the mortgage interest rate less two on each such amount
 - (i) for the period of such excess, or
 - (ii) for a period of twelve months,
 whichever is the shorter period, if after the mortgage account had gone into default in an amount equal to three monthly payments of principal, interest and taxes where the loan is repayable monthly, or in an amount equal to the quarterly, semi-annual or annual payment where the loan is repayable quarterly, semi-annually or annually, the approved lender holding or administering the loan within the time prescribed by regulation notified the Corporation of such default and took such steps in respect of such account as were satisfactory to the Corporation; and

(e) an acquisition fee of one hundred and twenty-five dollars and such taxable legal disbursements as may be approved by the Corporation; less two per cent of the amounts specified in paragraphs (a) and (c) and, in calculating the amount payable by the Corporation under this subsection, amounts received for the credit of the mortgage account when it was in default shall be credited at the date of the receipt thereof first to interest then owing on the mortgage account, secondly to borrower's charges and thirdly to the principal owing on the mortgage account.

Conditions to payment.

- (2) No payment shall be made under subsection (1) unless
 - (a) at the time of the conveyance of the property to the Corporation the property is unoccupied, or
 - (b) the property is occupied by such person and under such terms and conditions as may be determined by regulation.

Transfer of security.

(3) At the time of conveying the mortgaged property to the Corporation, any outstanding right to or in respect of the loan or any security therefor shall be transferred to the Corporation.

Payment without conveyance in special cases.

(4) Notwithstanding anything in this section, where default has occurred under a mortgage to secure an insured loan and the Corporation is of opinion that foreclosure or other acquisition of the title to the mortgaged property would unduly increase the loss in respect of the loan, the Corporation and the holder of the loan may, upon such terms and conditions as they may agree upon, fix and determine the amount of loss in respect of the insured loan, and the Corporation may pay such amount in lieu of the amount specified in subsection (1) if all rights to and in respect of the loan and any security therefor are transferred to the Corporation.

Continuation of mortgage account.

(5) For the purposes of this section the mortgage account shall be deemed to continue until the time of the conveyance of the mortgaged property to the Corporation.

Correction to last item on Page 4 of document entitled "PROPOSED TECHNICAL AMENDMENTS TO BILL 102"

Clause 9 (1): Page 12—in line 7, strike out the words "during the default period" and substitute the words "when it was in default"; in line 9, strike out the word "and"; in lines 10 and 11 strike out the words "the amount owing on the mortgage account as principal, including"; and add, after the word "charges" in line 11, " and thirdly to the principal owing on the mortgage account".

Canada. Banking and Commerce, Standing
Committee on, 1954

CA 18613
- 111
HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

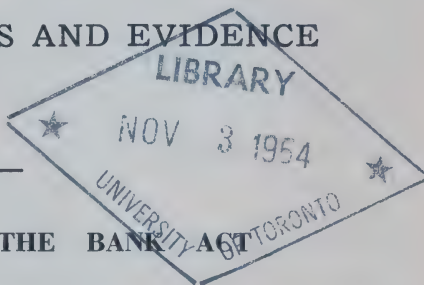
BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

DECENNIAL REVISION OF THE BANK ACT



TUESDAY, MARCH 16, 1954

WITNESS:

Mr. C. F. Elderkin, Inspector General of Banks.

STANDING COMMITTEE
ON
BANKING AND COMMERCE
DAVID A. CROLL, Esq., *Chairman*

Adamson	Fleming	Michener
Applewhaite	Follwell	Mitchell (<i>London</i>)
Arsenault	Fraser (<i>Peterborough</i>)	Monteith
Ashbourne	Fraser (<i>St. John's East</i>)	Nickle
Balcom	Gagnon	Noseworthy
Benidickson	Hanna	Philpott
Bennett (<i>Grey North</i>)	Hees	Picard
Blackmore	Hellyer	Pouliot
Boucher (<i>Restigouche- Madawaska</i>)	Henderson	Quelch
Breton	Huffman	Robichaud
Cameron (<i>Nanaimo</i>)	Hunter	Rouleau
Cannon	Low	Stewart (<i>Winnipeg North</i>)
Cardin	Johnston (<i>Bow River</i>)	Thatcher
Crestohl	Macdonnell	Tucker
Croll	MacEachen	Weaver
Dufresne	Macnaughton	Wood
Dumas	Matheson	
	McIlraith	

R. J. GRATRIX,
Clerk of the Committee.

(Note: Minutes of Proceedings and Evidence Nos. 1 to 14 inclusive dealt with Bill No. 102, *An Act to Promote the construction of new Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions.*)

BANKING AND COMMERCE

HOUSE OF COMMONS,

WEDNESDAY, DECEMBER 16, 1953.

Resolved—That the following Members do compose the Standing Committee on Banking and Commerce:—

Messrs:

Adamson	Dumas	Michener
Applewhaite	Fleming	Mitchell (<i>London</i>)
Arsenault	Follwell	Monteith
Ashbourne	Fraser (<i>Peterborough</i>)	Nickle
Balcom	Fraser (<i>St. John's East</i>)	Noseworthy
Benidickson	Fulton	Philpott
Bennett (<i>Grey North</i>)	Gagnon	Picard
Blackmore	Hanna	Pouliot
Boucher (<i>Restigouche-Madawaska</i>)	Hellyer	Quelch
Breton	Henderson	Robichaud
Cameron (<i>Nanaimo</i>)	Huffman	Rouleau
Cannon	Low	Smith
Cardin	Macdonnell	Stewart (<i>Winnipeg North</i>)
Crestohl	MacEachen	Thatcher
Croll	Macnaughton	Tucker
Dufresne	Matheson	Weaver
	McIlraith	Wood—50.

(Quorum—15.)

Ordered—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon; with power to send for persons, papers and records.

THURSDAY, JANUARY 28, 1954.

Ordered—That the following Bill be referred to the said Committee:

Bill No. 102, An Act to Promote the Construction of new Houses, the Repair and Modernization of existing Houses, and the Improvement of Housing and Living Conditions.

FRIDAY, JANUARY 29, 1954.

Ordered—That the name of Mr. Hees be substituted for that of Mr. Fulton; and

That the name of Mr. Hunter be substituted for that of Mr. Smith on the said Committee.

TUESDAY, FEBRUARY 2, 1954.

Ordered—That the quorum of the said Committee be reduced from 15 members to 10, and that Standing Order 63(1)(d) be suspended in relation thereto.

Ordered—That permission be granted the said Committee to sit while the House is sitting.

Ordered—That the said Committee be empowered to print from day to day 750 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

MONDAY, FEBRUARY 8, 1954.

Ordered—That the name of Mr. Johnston (*Bow River*) be substituted for that of Mr. Blackmore on the said Committee.

THURSDAY, FEBRUARY 25, 1954.

Ordered—That the following Bill be referred to the said Committee:
Bill No. 297, An Act to amend the Bank of Canada Act.

TUESDAY, MARCH 9, 1954.

Ordered—That Bill No. 338, An Act respecting Banks and Banking, be referred to the said Committee.

ATTEST.

Leon J. Raymond,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, MARCH 16, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FOURTH REPORT

On March 3rd, 1954, your Committee presented its Third Report wherein it reported Bill No. 102, An Act to Promote the Construction of new Houses, the Repair and Modernization of Existing Houses, and the Improvement of Housing and Living Conditions, with amendments.

A copy of the evidence adduced in respect of the said Bill is now tabled.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 16, 1954.

The Standing Committee on Banking and Commerce met this day at 11.00 o'clock a.m. Mr. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Benidickson, Bennett (*Grey North*), Cannon, Cardin, Dumas, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Huffman, Hunter, Johnston (*Bow River*), Macnaughton, Noseworthy, Philpott, Quelch, Robichaud, Tucker, Weaver and Wood.

In attendance: Mr. C. F. Elderkin, Inspector General of Banks.

The Chairman presented the Third Report of the Subcommittee on Agenda in respect to the proceedings of the Committee on the following bills referred:

Bill No. 297—An Act to amend the Bank of Canada Act.

Bill No. 338—An Act respecting Banks and Banking.

On motion of Mr. Cannon,

Resolved,—That the Third Report of the Subcommittee on Agenda be adopted.

(*See this day's Evidence*)

The Chairman laid on the table the following documents, received by the Clerk of the Committee from the Bank of Canada, which are to be found as *Appendix "A"* to this day's Evidence.

Exhibit No. 1: Comparative Statement of Income, Operating Expenses and Distribution of Earnings for the Years 1944 to 1953 inclusive;

Exhibit No. 2: Number of Bank of Canada Staff at Year End 1944 to 1953 inclusive.

Mr. Elderkin was called and laid on the table the following documents which are to be found as *Appendix "B"* to this day's Evidence.

Exhibit No. 3: Summary Showing Fate of all Banks which were Active at or Incorporated since July 1, 1867;

Exhibit No. 4: Location of Shareholders and Shares of the Chartered Banks and Analysis of Shareholdings at Fiscal Year Ends 1953;

Exhibit No. 5: Statement of Shareholders Equity—Capital, Rest and Undivided Profits of the Chartered Banks as at Fiscal Year Ends in 1953;

Exhibit No. 6: Net Profits, Income Taxes and Dividends of Chartered Banks for Fiscal Years;

Exhibit No. 7: Interest Rates on Personal Savings Deposits in Canada Paid by the Chartered Banks, January 1, 1924 to December 31, 1953;

Exhibit No. 8: The Chartered Banks of Canada Classification of Deposits in Canadian Currency by the Public in Canada, 1944 to 1953;

Exhibit No. 9: The Chartered Banks of Canada Classification of Loans in Canada, 1944 to 1953;

Exhibit No. 10: The Chartered Banks of Canada Rates of Dividends on Paid-Up Capital and (In Brackets) on Shareholders Equity, 1944 to 1953;

Exhibit No. 11: Statement of Earnings, Expenses and other Information of the Chartered Banks for the Fiscal Years 1944 to 1953 and for the Average of 15 Fiscal Years ending in 1944 to 1953;

Exhibit No. 12: Statement of Assets and Liabilities of the Chartered Banks as at December 31, 1944 to 1953;

Exhibit No. 13: Branches of Chartered Banks at December 31, 1953.

Thereupon the Committee proceeded with the consideration of Private Bills referred, in respect of which verbatim evidence was not recorded.

At 11.25 o'clock a.m., the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, March 18, 1954.

R. J. GRATRICK,
Clerk of the Committee.

EVIDENCE

March 16, 1954.

11:00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. Your subcommittee begs leave to present the following as its third report:

THIRD REPORT

Your Subcommittee met on Thursday, March 11, at 10.30 o'clock a.m., the following members being present: Messrs. Applewhaite, Cannon, Croll, Fleming, Macdonnell, Noseworthy, Quelch, Tucker and Weaver.

Your Subcommittee recommends:

1. That the Committee commence consideration of Bills Nos. 297 and 338 on Thursday, March 18, at 11.00 o'clock a.m., and that Mr. Graham Towers, Governor of the Bank of Canada, be the first witness heard, to be followed by Mr. K. W. Taylor, Deputy Minister of Finance; the President of The Canadian Bankers' Association; representatives of the Chartered Banks; Mr. C. F. Elderkin, Inspector General of Banks, and the Honourable Lucien Maynard, Attorney-General of the Province of Alberta, representing the provinces of Alberta and British Columbia.

2. That any organizations wishing to make representations to the Committee be required to file a written brief before it is decided whether or not they shall be given an opportunity to appear before the Committee.

3. That the Committee procure fifty-five copies of the evidence of the Standing Committee on Banking and Commerce on the 1944 decennial revision of the Bank Act, and that they be distributed to the members of the Committee.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

Mr. CANNON: I move the adoption of the report.

The CHAIRMAN: It has been moved and seconded that the report of the subcommittee be adopted.

Carried.

I am placing on record this morning a number of exhibits from the Bank of Canada and from Mr. Elderkin, the Inspector-General. I am doing this in order to make them available to you for Thursday when Mr. Towers will appear before the committee. I believe you will find these exhibits very useful in your deliberations.

The first one is entitled as follows:

Bank of Canada

Comparative Statement of Income, Operating Expenses and Distribution of Earnings for the years 1944 to 1953 inclusive

Number of Bank of Canada Staff at Year-Ends 1944 to 1953 inclusive

Those are filed by the Bank of Canada. And then we have the following exhibits filed by the Inspector General:

BILL 338—EXHIBITS

1. Summary showing fate of all banks which were active at or incorporated since July 1, 1867.
2. Location of shareholders and shares of the chartered banks and analysis of shareholdings at fiscal year ends 1953.
3. Statement of shareholders equity—capital, rest and undivided profits of the chartered banks as at fiscal year ends in 1953.
4. Net profits, income taxes and dividends of chartered banks.
5. Interest rates on personal savings deposits in Canada paid by the chartered banks, January 1, 1924 to December 31, 1953.
6. Classification of deposits in Canadian currency by the public in Canada, 1944 to 1953.
7. Classification of loans in Canada, 1944 to 1953.
8. Rates of dividends on paid-up capital and (in brackets) on shareholders equity, 1944 to 1953.
9. Statement of earnings, expenses and other information of the chartered banks for the fiscal years 1944 to 1953 and for the average of 15 fiscal years ending in 1944 to 1953.
10. Statement of assets and liabilities of the chartered banks as at December 31, 1944 to 1953.
11. Branches of chartered banks at December 31, 1953.

And following which will Mr. Elderkin now please hand to Mr. Gratrix one copy of each of the foregoing exhibits: No. 1, the Summary; No. 2, the Location of Shareholders; No. 3, the Statement of Shareholders' Equity; No. 4, the Net Profits; No. 5, Interest Rates; No. 6, Classification; No. 7, Classification of Loans; No. 8, Rates of Dividends; No. 9, Statement of Earnings; No. 10, Statement of Assets; and No. 11, Branches.

Mr. QUELCH: These exhibits will be printed in the record, will they not?

The CHAIRMAN: Yes. We hope to make them available to you by Thursday.

Mr. Gratrix is also preparing for all the members of the committee the annual statements of the chartered banks, and you will have those provided for you some time today. They will be for the year 1953.

Mr. FRASER (*Peterborough*): Will that include Barclays?

The CHAIRMAN: Yes.

Mr. CANNON: Will you have individual copies of all these exhibits for each member of the committee?

The CHAIRMAN: These exhibits will appear in the record and should be available to you by Thursday. That is the purpose of putting them on record today.

The committee then proceeded to other matters referred.

EXHIBIT No. 1

APPENDIX "A"

BANK OF CANADA

COMPARATIVE STATEMENT OF INCOME, OPERATING EXPENSES AND
DISTRIBUTION OF EARNINGS FOR THE YEARS 1944 TO 1948 INCLUSIVE

	1944	1945	1946	1947 ⁽¹⁾	1948
INCOME	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Interest and Discount.....	24,561,037 66	27,321,447 11	25,691,856 11	25,123,091 63	26,145,684 07
All Other Income.....	11,923 06	3,442 85	6,199 54	16,270 14	25,440 46
	24,572,960 72	27,324,889 96	25,685,656 57	25,139,361 77	26,171,124 53
OPERATING EXPENSES					
Salaries.....	1,775,619 26	1,767,868 57	1,889,500 35	2,406,118 71	2,798,787 28
Unemployment Insurance, Group Insurance and Con- tributions to Staff Pension and Retirement Trust Funds	162,679 64	174,276 43	733,196 26	562,803 59	568,272 51
Cafeteria and Lunch Room Expense.....	16,169 13	24,528 28	33,790 11	55,559 71	68,363 09
Travelling Expense.....	7,150 00	7,250 00	6,100 00	5,600 00	5,800 00
Directors' Fees and Expenses.	37,903 88	45,069 67	29,093 01	38,604 21	38,363 92
Cost of R.C.M.P. Guards and Electric Protection.....	767,618 77	795,714 94	1,005,434 39	1,177,782 42	1,463,479 72
Cost of Bank Notes (including Postage and Express Charges on Bank Note Shipments)...	210,127 61	205,594 77	191,190 40	229,132 99	234,899 65
Premises and Equipment (ex- cluding taxes) less Rentals Received.....	88,888 53	74,123 47	66,416 69	87,945 45	84,559 19
Stationery and Printing.....	71,402 69	85,933 25	98,975 36	49,659 16	52,330 90
Postage and Express (excluding cost of shipping Bank Notes)	36,416 28	36,181 25	36,426 08	39,242 43	38,160 14
Telegrams and Telephones...	15,368 63	15,737 01	22,502 44	22,131 34	26,649 54
Insurance (registered mail, fidelity, hold-up, fire and other).....	104,257 76	101,663 54	111,870 95	165,629 41	196,249 18
Taxes (including municipal, business and stamp).....	19,044 97	21,689 00	24,930 99	24,147 78	23,684 65
Auditors' Fees and Expenses..		22,050 18	22,907 70	28,574 03	29,437 05
Interest Paid on Unclaimed Balances.....	44,699 18	42,864 16	42,432 00	57,120 53	69,601 74
All Other Expenses.....	3,357,346 33	3,420,544 52	4,314,766 73	4,950,051 76	5,698,638 56
DISTRIBUTION OF EARNINGS					
Current Operating Expenses..	3,357,346 33	3,420,544 52	4,314,766 73	4,950,051 76	5,698,638 56
Transferred to Reserve against Investments.....	750,000 00	1,000,000 00		1,000,000 00	1,000,000 00
Written Off to Depreciation of Buildings and Equipment...	152,954 71	137,424 52	134,694 88	135,984 58	140,338 77
Dividend Paid to Receiver General of Canada.....	225,000 00	225,000 00	225,000 00	225,000 00	225,000 00
	4,485,301 04	4,782,969 04	4,674,461 61	6,311,036 34	7,063,977 33
Credited to Rest Fund.....	2,008,765 97				
Paid to Receiver General of Canada.....	18,078,893 71	22,541,920 92	21,011,194 96	18,828,325 43	19,107,147 20
Total Gross Income..	24,572,960 72	27,324,889 96	25,685,656 57	25,139,361 77	26,171,124 53

(1) Principal expenses of Foreign Exchange Control administration assumed by Bank of Canada January 1, 1947, under provisions of The Foreign Exchange Control Act.

EXHIBIT No. 1—Conc.

BANK OF CANADA

COMPARATIVE STATEMENT OF INCOME, OPERATING EXPENSES AND
DISTRIBUTION OF EARNINGS FOR THE YEARS 1949 TO 1953 INCLUSIVE

	1949	1950	1951	1952	1953
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
INCOME					
Interest and Discount.....	27,907,632 24	27,055,325 54	35,297,178 84	43,889,266 64	54,101,643 20
All Other Income.....	8,941 37	25,151 56	56,764 61	203,379 27	87,450 93
	27,916,573 61	27,080,477 10	35,353,943 45	44,092,645 91	54,189,094 13
OPERATING EXPENSES					
Salaries.....	3,060,453 89	3,210,771 67	3,301,706 68	2,902,044 07	2,376,532 76
Unemployment Insurance, Group Insurance and Con- tributions to Staff Pension and Retirement Trust Funds	667,899 62	658,471 75	446,886 24	384,980 96	338,359 67
Cafeteria and Lunch Room Expense.....		6,928 99	2,635 16	32,552 51	61,082 22
Travelling Expense.....	71,057 48	74,834 44	79,273 36	74,756 41	87,739 00
Directors' Fees and Expenses	5,800 00	6,750 00	6,700 00	7,100 00	10,050 00
Cost of R.C.M.P. Guards and Electric Protection.....	45,574 83	59,102 59	70,812 06	72,906 21	68,095 41
Cost of Bank Notes (including Postage and Express Charges on Bank Note Shipments)...	1,860,309 99	1,968,346 34	2,416,023 12	2,722,883 81	2,326,178 37
Premises and Equipment (ex- cluding taxes) less Rentals Received.....	267,939 75	258,572 49	263,286 13	353,235 05	256,187 59
Stationery and Printing.....	98,069 59	115,659 36	112,886 91	91,601 40	91,958 76
Postage and Express (excluding cost of shipping Bank Notes)	48,675 57	46,397 07	43,632 19	50,745 39	48,320 20
Telegrams and Telephones....	43,198 66	53,285 20	55,049 35	86,170 29	88,077 51
Insurance (registered mail, fidelity, hold-up, fire and other).....	37,968 42	42,568 98	44,798 66	49,805 48	49,707 10
Taxes (including municipal, business and stamp).....	205,378 43	276,415 16	332,228 04	293,764 89	315,633 21
Auditors' Fees and Expenses..	23,365 10	27,721 06	29,277 48	28,195 92	28,800 00
Interest Paid on Unclaimed Balances.....	30,843 23	32,550 21	33,436 48	34,551 44	35,990 61
All Other Expenses.....	84,082 84	84,269 21	80,495 07	66,880 07	70,395 57
	6,550,617 40	6,922,644 52	7,319,126 93	7,252,173 90	6,253,107 98
DISTRIBUTION OF EARNINGS					
Current Operating Expenses..	6,550,617 40	6,922,644 52	6,319,126 93	7,252,173 09	6,253,107 98
Transferred to Reserve against Investments.....			3,500,000 00	7,500,000 00	3,500,000 00
Written Off to Depreciation of Buildings and Equipment...	698,578 10	270,284 17	219,799 08	323,761 59	343,178 93
Dividend Paid to Receiver General of Canada.....	225,000 00	225,000 00	225,000 00	225,000 00	225,000 00
	7,474,195 50	7,417,928 69	11,335,926 01	15,300,935 49	10,321,286 91
Paid to Receiver General of Canada.....	20,442,378 11	19,662,548 41	24,018,017 44	28,791,710 42	43,867,807 22
Total Gross Income..	27,916,573 61	27,080,477 10	35,353,943 45	44,092,645 91	54,189,094 13

EXHIBIT No. 2

BANK OF CANADA
STAFF—DECEMBER 31

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
Currency Division.....	85	94	101	105	105	121	122	109	108	79
Public Debt Division.....	753	737	572	455	447	435	426	354	284	289
Foreign Exchange Control.....				420	472	466	403	351		
Other Head Office Departments.....	146	176	181	168	184	192	202	199	220	210
Agencies.....	141	159	167	168	174	182	189	173	152	159
Total.....	1,125	1,166	1,021	1,316	1,382	1,396	1,342	1,186	764	737
Total Excluding Foreign Exchange Control.....	1,125	1,166	1,021	896	910	930	939	835	764	737

EXHIBIT No. 3

APPENDIX "B"

SUMMARY SHOWING FATE OF ALL BANKS WHICH WERE ACTIVE AT OR
INCORPORATED SINCE JULY 1, 1867

(1) Charters lapsed without use.....	38
(2) Banks which operated but were later absorbed by other banks.....	35
(3) Banks which operated but were later placed in liquidation.....	26
(4) Active at this date.....	11
	<hr/> 110 <hr/>

(2) BANKS ABSORBED—

PURCHASING BANK	YEAR (a)	BANK ABSORBED
Bank of Montreal.....	1903	Exchange Bank of Yarmouth
	1905	Peoples Bank of Halifax
	1907	Peoples Bank of New Brunswick
	1918	The Bank of British North America
	1922	The Merchants Bank of Canada
	(b) 1868	Commercial Bank of Canada
	1925	The Molsons Bank
The Bank of Nova Scotia.....	1883	Union Bank of Prince Edward Island
	1913	Bank of New Brunswick
	(b) 1901	The Summerside Bank
	1914	The Metropolitan Bank
	1919	The Bank of Ottawa
The Canadian Bank of Commerce.....	1870	The Gore Bank
	1900	The Bank of British Columbia
	1903	Halifax Banking Company
	1906	Merchants Bank of Prince Edward Island
	1912	Eastern Townships Bank
	1923	Bank of Hamilton
	1928	The Standard Bank of Canada
	(b) 1909	Western Bank of Canada
	(b) 1924	The Sterling Bank of Canada
The Royal Bank of Canada.....	1910	The Union Bank of Halifax
	(b) 1902	The Commercial Bank of Windsor
	1912	The Traders Bank of Canada
	1917	The Quebec Bank
	1918	The Northern Crown Bank
	(b) 1908	The Crown Bank of Canada
	1925	Union Bank of Canada
	(b) 1911	United Empire Bank
Banque d'Hochelaga-(c).....	1924	La Banque Nationale
Imperial Bank of Canada.....	1875	Niagara District Bank
	1931	The Weyburn Security Bank
Consolidated Bank of Canada(d).....	1876	City Bank
	1876	Royal Canadian Bank
The Home Bank of Canada (d).....	1913	La Banque Internationale du Canada

(a) Dates since 1900 are those of authorizing Order in Council.

(b) Previously absorbed by prior bank in listing.

(c) Name changed to Banque Canadienne Nationale—1924.

(d) Since failed.

EXHIBIT No. 3—*Conc.*

(3) BANKS PLACED IN LIQUIDATION

Charter Granted	Cessation of Operations	NAME OF BANK
1834	1868	Commercial Bank of N.B.
1872	1873	Bank of Acadia
1871	1876	Metropolitan Bank of Montreal
1865	1879	Mechanics Bank
1871	1879	Bank of Liverpool
1875	1879	The Consolidated Bank of Canada
1872	1879	Stadacona Bank
1856	1881	Bank of Prince Edward Island
1871	1883	Exchange Bank of Canada
1872	1887	The Maritime Bank of Dominion of Canada
1873	1887	Pictou Bank
1883	1887	Bank of London in Canada
1883	1887	The Central Bank of Canada
1874	1888	Federal Bank of Canada
1884	1893	Commercial Bank of Manitoba
1844	1895	La Banque du Peuple
1872	1899	La Banque Ville Marie
1859	1905	Bank of Yarmouth
1857	1906	Ontario Bank
1901	1908	The Sovereign Bank of Canada
1873	1908	La Banque de St. Jean
1873	1908	La Banque de St. Hyacinthe
1836	1910	The St. Stephens Bank
1904	1910	The Farmers Bank of Canada
1908	1914	The Bank of Vancouver
1903	1923	The Home Bank of Canada

(4) BANKS ACTIVE AT DATE

Charter Granted	NAME OF BANK
1822	Bank of Montreal
1832	The Bank of Nova Scotia
1855	The Bank of Toronto
1861	La Banque Provinciale du Canada
1867	The Canadian Bank of Commerce
1869	The Royal Bank of Canada
1869	The Dominion Bank
1873	Banque Canadienne Nationale
1873	Imperial Bank of Canada
1929	Barclays Bank (Canada)
1953	The Mercantile Bank of Canada

EXHIBIT No. 4

LOCATION OF SHAREHOLDERS OF CHARTERED BANKS

Country	December 31, 1943		Fiscal years ends, 1953	
	Number	Percentage	Number	Percentage
Canada	36,534	71.37	52,121	76.20
Elsewhere in British Commonwealth	8,931	17.45	11,929	17.44
United States and Possessions	4,855	9.48	3,739	5.47
All other countries	870	1.70	608	.89
	51,190	100.00	68,397	100.00

LOCATION OF SHARES OF CHARTERED BANKS

Country	December 31, 1943		Fiscal year ends, 1953	
	Number (a)	Percentage	Number (b)	Percentage
Canada	9,897	68.02	10,995	72.81
Elsewhere in British Commonwealth	2,784	19.13	2,953	19.56
United States and Possessions	1,543	10.61	1,005	6.66
All other countries	326	2.24	147	.97
	14,550	100.00	15,100	100.00

NOTE (a) At December 31, 1943 the shares had a par value of \$100 each. The par value was changed in 1944 to \$10 each and for purposes of comparison are here converted ten for one and expressed in thousands.

(b) Expressed in thousands.

SHAREHOLDINGS OF CHARTERED BANKS AT FISCAL YEAR ENDS, 1953

Number of shareholders holding:—	Shareholders	Percentage
(1) Less than 500 shares	62,330	91.13
(2) 500 shares to 999 shares	3,477	5.08
(3) 1,000 shares and over	2,590	3.79
	68,397	100.00

EXHIBIT No. 5

STATEMENT OF SHAREHOLDERS EQUITY

CAPITAL, REST AND UNDIVIDED PROFITS OF THE CHARTERED BANKS AS AT
FISCAL YEAR ENDS IN 1953

(in thousands of dollars)

Bank	Capital Paid-up	Rest or Reserve Fund	Profit and Loss Account	Total Share- holders Equity	Source of Funds	
					Issue of Capital Stock	Profits
Bank of Montreal.....	36,000	60,000	706	96,706	57,039	39,667
The Bank of Nova Scotia.....	15,000	33,000	1,063	49,063	38,619	10,444
The Bank of Toronto.....	6,000	16,000	321	22,321	10,075	12,246
La Banque Provinciale du Canada....	5,000	3,000	180	8,180	5,750	2,430
The Canadian Bank of Commerce....	30,000	38,000	843	68,843	48,894	19,949
The Royal Bank of Canada.....	35,000	70,000	1,515	106,515	65,734	41,141
The Dominion Bank.....	7,000	12,000	642	19,642	12,900	6,742
Banque Canadienne Nationale.....	7,000	8,000	426	15,426	10,659	4,767
Imperial Bank of Canada.....	7,000	12,000	567	19,567	12,181	7,386
Barclays Bank (Canada).....	3,000	3,000	121	6,211	6,000	211
The Mercantile Bank of Canada.....	1,500	400	nil (A)	1,900	1,900	nil
Total.....	152,500	255,400	6,474	414,374	269,391	144,983
Percentage.....	36.80%	61.64%	1.56%	100.00%	65.01%	34.99%

NOTE (A) Commenced business December 1953.

EXHIBIT No. 6

NET PROFITS, INCOME TAXES AND DIVIDENDS OF CHARTERED BANKS FOR FISCAL YEARS

(Amounts in thousands of dollars)

Bank	Year	(1) Net Profits	(2) Percentage of Net profits to Paid-up Capital	(3) Percentage of Net profits to Share- holders Equity	(4) Provision for Income Taxes	(5) Dividends Paid
		\$	%	%	\$	\$
Bank of Montreal.....	1953	7,043	19.56	7.28	6,650	5,040
The Bank of Nova Scotia.....		3,011	20.08	6.14	2,750	2,700
The Bank of Toronto.....		1,303	21.72	5.84	1,263	1,020
The Provincial Bank of Canada.....		426	8.52	5.21	354	332
The Canadian Bank of Commerce.....		5,789	19.30	8.41	5,558	3,600
The Royal Bank of Canada.....		8,635	24.67	8.11	8,952	4,900
The Dominion Bank.....		1,394	19.91	7.16	1,430	910
Banque Canadienne Nationale.....		1,365	19.50	8.85	1,220	840
Imperial Bank of Canada.....		1,402	20.03	7.17	1,786	1,050
Barclays Bank (Canada).....		18	0.60	0.29	4	nil
All banks.....	1953	30,386	20.12	7.37	29,967	20,392
	1952	24,478	16.46	6.42	23,345	18,627
	1951	22,759	15.35	6.08	18,762	17,318
	1950	23,442	16.11	6.50	14,064	15,640
	1949	21,860	15.02	6.19	14,542	15,120
	1948	20,770	14.27	6.00	11,914	14,895
	1947	19,509	13.40	5.74	14,138	14,163
	1946	16,501	11.34	4.96	13,930	12,635
	1945	12,556	8.63	4.20	11,142	9,600
	1944	11,379	7.82	3.85	11,856	9,400
Average.....	1944-1953	20,364	13.89	5.83	16,366	14,779

NOTES TO COLUMNS

(1) Net profits after appropriations to contingency reserves, provision for depreciation and for income taxes.

(3) Shareholders Equity consists of paid-up capital, rest account and undivided profits.

(4) Includes in some cases, provincial and foreign income taxes.

EXHIBIT No. 7

THE CHARTERED BANKS OF CANADA
INTEREST RATES ON PERSONAL SAVINGS DEPOSITS IN CANADA*From January 1st, 1924 to December 31st, 1953*

January 1, 1924—3% per annum on minimum monthly balance.

May 1, 1933—2½% per annum on minimum monthly balance.

November 1, 1934—2% per annum on minimum monthly balance.

June 1, 1936—1½% per annum on minimum monthly balance.

March 1, 1939—1½% per annum on minimum quarterly balance.

December 1, 1953—2% per annum on minimum quarterly balance.

NOTE (a) The rate of 3% per annum was in effect for many years prior to 1924; (b) Interest is added to accounts half-yearly.

EXHIBIT No. 8

THE CHARTERED BANKS OF CANADA
CLASSIFICATION OF DEPOSITS IN CANADIAN CURRENCY BY THE PUBLIC IN CANADA

AS AT OCTOBER 31, 1944 TO 1947 AND SEPTEMBER 30, 1948 TO 1953

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1952
DEPOSIT PAYABLE ON DEMAND										
NUMBER OF ACCOUNTS, IN THOUSANDS										
1. Deposits of \$1,000 or less.....	602	592	649	687	727	767	824	853	873	911
2. Deposits over \$1,000 to \$5,000.....	120	133	142	147	163	170	158	165	183	195
3. Deposits over \$5,000 to \$25,000.....	29	25	37	38	44	48	48	50	57	60
4. Deposits over \$25,000 to \$100,000.....	6	7	8	7	8	9	10	10	12	13
5. Deposits in excess of \$100,000.....	2	2	2	2	3	3	3	3	4	4
	759	769	838	881	954	997	1,043	1,081	1,129	1,183
DEPOSITS PAYABLE AFTER NOTICE										
NUMBER OF ACCOUNTS, IN THOUSANDS										
1. Deposits of \$1,000 or less.....	4,588	4,969	5,291	5,517	5,719	5,962	6,170	6,416	6,666	6,894
2. Deposits over \$1,000 to \$5,000.....	454	584	690	725	778	828	817	821	880	957
3. Deposits over \$5,000 to \$25,000.....	47	60	77	89	103	121	131	136	146	164
4. Deposits over \$25,000 to \$100,000.....	3	3	4	5	5	6	7	7	7	7
5. Deposits in excess of \$100,000.....	1	1	1	1	1	1	1	1	1	1
	5,093	5,617	6,063	6,337	6,606	6,918	7,126	7,381	7,700	8,023
DEPOSITS PAYABLE ON DEMAND										
AMOUNTS IN MILLIONS OF DOLLARS										
1. Deposits of \$1,000 or less.....	\$ 142.1	166.3	165.6	169.6	180.4	185.9	179.5	187.2	19.72	208.3
2. Deposits over \$1,000 to \$5,000.....	259.0	289.0	307.2	321.7	355.8	373.3	346.7	363.4	405.3	431.6
3. Deposits over \$5,000 to \$25,000.....	295.8	344.0	372.3	386.9	434.8	477.0	478.1	501.3	578.7	608.4
4. Deposits over \$25,000 to \$100,000.....	268.1	307.2	350.9	344.1	393.6	425.2	456.1	475.7	550.9	583.0
5. Deposits in excess of \$100,000.....	1,145.4	1,159.8	1,097.7	945.9	1,032.6	1,143.1	1,378.8	1,275.9	1,470.5	1,525.7
6. Adjustments (A).....	34.1	30.7	22.0	—	—	—	—	—	—	—
	\$2,144.5	2,297.0	2,315.7	2,163.3	2,360.1	2,504.1	2,708.7	2,651.1	3,026.0	3,149.9

DEPOSITS PAYABLE AFTER NOTICE
AMOUNTS IN MILLIONS OF DOLLARS

1. Deposits of \$1,000 or less.....	\$ 752.3	862.3	901.0	922.0	953.1	997.5	993.9	1,021.4	1,091.5	1,139.9
2. Deposits over \$1,000 to \$5,000.....	880.2	1,142.9	1,373.3	1,478.4	1,605.1	1,732.2	1,729.5	1,737.6	1,866.3	2,036.7
3. Deposits over \$5,000 to \$25,000.....	405.1	497.0	645.3	752.6	868.0	1,017.3	1,098.8	1,143.7	1,223.4	1,370.0
4. Deposits over \$25,000 to \$100,000.....	122.0	133.4	180.5	203.4	228.1	249.9	285.9	289.0	295.3	311.3
5. Deposits in excess of \$100,000.....	322.7	347.8	365.7	440.7	387.1	405.4	462.7	393.1	415.0	357.5
6. Adjustments (A).....	6.6	8.2	10.9	8.8	7.1	9.2	11.1	9.9	9.4	10.6
	\$2,488.9	2,991.6	3,476.7	3,805.9	4,048.5	4,411.5	4,581.9	4,594.7	4,900.9	5,226.0

(A) Drafts issued, certified cheques, items in transit, etc.

EXHIBIT No. 9

THE CHARTERED BANKS OF CANADA

CLASSIFICATION OF LOANS IN CANADA

AS AT OCTOBER 31, 1944 TO 1947 AND SEPTEMBER 30, 1948 TO 1953

(Amounts in millions of dollars)

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. GOVERNMENT AND OTHER PUBLIC SERVICES										
(1) Provincial governments.....	5.4	11.5	12.1	20.6	20.5	40.4	23.6	24.9	6.3	10.6
(2) Municipal governments and school districts.....	33.2	20.2	26.5	43.9	67.6	76.1	91.5	114.5	102.4	109.4
(3) Religious, educational, health and welfare institutions.....	6.2	6.4	7.8	13.5	23.8	26.5	33.1	45.9	43.3	47.1
TOTAL GOVERNMENT AND OTHER PUBLIC SERVICES...	44.8	38.1	46.4	78.0	111.9	143.0	148.2	185.3	152.0	167.1
2. FINANCIAL										
(1) Investment dealers and brokers to the extent payable on call or within thirty days.....	56.8	130.6	97.8	83.9	75.4	102.4	101.2	107.1	135.2	110.1
(2) Trust, loan, mortgage, investment and insurance companies and other financial institutions.....	9.2	22.9	35.4	38.0	41.4	57.5	86.0	91.7	107.5	122.6
TOTAL FINANCIAL.....	66.0	153.5	133.2	121.9	116.8	159.9	187.2	198.8	242.7	232.7
PERSONAL										
(1) Individuals, for other than business purposes on the security of marketable stocks and bonds.....	125.0	172.5	220.8	225.8	225.1	234.6	243.4	255.6	274.3	300.2
(2) Individuals, for other than business purposes, not elsewhere classified.....	60.3	72.6	111.6	133.6	150.4	167.6	218.2	211.3	228.0	298.2
TOTAL PERSONAL.....	185.3	245.1	332.4	359.4	375.5	402.2	461.6	466.9	502.3	598.4
4. AGRICULTURAL, INDUSTRIAL AND COMMERCIAL										
(1) Farmers.....	57.8	71.4	109.9	147.3	161.9	184.4	255.8	298.9	334.2	345.0
(2) Industry										
(a) Chemical and rubber products.....			5.8	14.4	27.0	25.3	29.2	54.3	30.3	43.4
(b) Electrical apparatus and supplies.....			3.1	14.5	12.6	9.2	14.3	41.4	22.9	41.9

(c) Food, beverages and tobacco.....	74.2	105.1	130.9	117.0	122.5	172.0	168.4	162.8
(d) Forest products.....	74.7	108.4	104.7	102.6	76.0	115.7	136.5	139.8
(e) Furniture.....	7.6	12.3	12.7	13.1	16.2	19.8	14.4	17.6
(f) Iron and steel products.....	46.4	88.6	73.2	75.2	53.4	97.5	95.6	124.5
(g) Mining and mine products.....	13.7	17.0	18.9	21.9	26.0	33.4	48.0	66.0
(h) Petroleum and products.....	3.4	9.0	6.4	10.6	22.9	31.0	32.8	55.6
(i) Textiles, leather and clothing.....	73.3	106.7	118.5	134.9	138.9	213.4	158.0	199.5
(j) Transportation equipment.....	11.6	17.6	21.1	25.6	30.1	46.4	52.8	52.8
(k) Other products.....	29.8	40.3	35.8	42.5	55.2	63.1	53.1	58.9
	275.6	343.6	561.8	577.9	584.7	888.0	812.8	958.8
(3) Public utilities, transportation and communication companies.....	6.3	42.5	36.3	34.5	53.9	87.9	67.5	61.7
(4) Construction contractors.....	38.5	93.9	103.6	113.3	122.7	151.8	158.7	175.0
(5) Grain dealers and exporters.....	209.3	67.9	103.3	190.1	93.1	98.6	186.5	310.7
(6) Instalment finance companies.....	18.4	65.7	53.1	74.6	96.5	100.8	149.4	249.3
(7) Merchandisers.....	125.4	244.8	387.4	415.5	436.1	542.9	484.0	595.8
(8) Other business.....	22.2	45.0	89.1	113.0	135.5	133.8	139.0	179.4
TOTAL AGRICULTURAL, INDUSTRIAL AND COMMERCIAL.....	753.5	1,378.9	1,496.5	1,703.3	1,778.3	2,302.7	2,332.1	2,884.7
TOTAL LOANS IN CANADA.....	1,049.6	1,438.9	2,100.7	2,408.4	2,575.3	3,153.7	3,229.1	2,882.9

NOTE.—The form of return was revised in 1950 and classifications prior to that year are estimated in some cases. There is not sufficient data available on which to base estimates of the Industry classifications prior to 1946.

EXHIBIT No. 10
THE CHARTERED BANKS OF CANADA
RATES OF DIVIDENDS ON PAID-UP CAPITAL AND (IN BRACKETS) ON SHAREHOLDERS EQUITY
FOR THE FISCAL YEARS 1944 TO 1953

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
	%	%	%	%	%	%	%	%	%	%
Bank of Montreal.....	6 (2·8)	6 (2·8)	9½ (4·3)	10 (4·4)	10 (4·3)	10 (4·2)	10 (4·1)	12 (4·9)	12½ (5·0)	14 (5·2)
The Bank of Nova Scotia.....	10 (2·7)	10 (3·2)	11½ (3·7)	14 (4·4)	14 (4·4)	15 (4·6)	16 (4·9)	16 (4·6)	16 (4·9)	18 (5·5)
The Bank of Toronto.....	10 (3·1)	10 (3·0)	12 (3·5)	12 (3·5)	14 (4·0)	14 (3·9)	16 (4·4)	16 (3·6)	16 (4·4)	17 (4·6)
The Provincial Bank of Canada.....	5 (3·8)	5 (3·8)	5½ (3·3)	7 (4·4)	7 (4·4)	7 (4·3)	7 (4·3)	7 (4·2)	7 (4·1)	7 (4·1)
The Canadian Bank of Commerce.....	6 (3·5)	6 (3·5)	7½ (3·6)	10 (4·8)	10 (4·8)	10 (4·7)	10 (4·6)	10 (4·6)	12 (5·4)	12 (5·2)
The Royal Bank of Canada.....	6 (3·5)	6 (3·5)	8 (3·7)	8½ (3·8)	10 (4·3)	10 (4·2)	10 (4·1)	12 (4·8)	12½ (4·8)	14 (4·6)
The Dominion Bank.....	8 (3·7)	8 (3·7)	9½ (3·8)	10 (4·0)	10 (3·9)	10 (3·8)	12 (4·5)	12 (4·5)	12 (4·4)	13 (4·6)
Banque Canadienne Nationale.....	6 (3·4)	6 (3·4)	7 (3·4)	7½ (3·5)	8 (3·9)	8 (3·8)	8 (3·8)	10 (4·7)	10 (4·7)	12 (5·4)
Imperial Bank of Canada.....	8 (3·5)	8 (3·5)	10 (4·3)	10 (3·8)	10½ (4·0)	12 (4·5)	14 (5·2)	14 (4·4)	14 (5·1)	15 (5·4)
Bardays Bank (Canada).....	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
All banks.....	— (3·2)	— (3·3)	— (3·8)	— (4·2)	— (4·3)	— (4·3)	— (4·3)	— (4·6)	— (4·9)	— (4·9)

Note—Shareholders equity consists of paid-up capital, rest account and undivided profits at fiscal year ends of the banks.

EXHIBIT No. 11

STATEMENT OF EARNINGS, EXPENSES AND OTHER INFORMATION OF THE CHARTERED BANKS
FOR THE FISCAL YEARS OF THE BANKS

(millions of dollars)

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
CURRENT OPERATING EARNINGS										
1. Interest and discount on loans.....	57.3	60.2	70.7	90.1	106.5	115.7	125.0	155.7	166.3	191.6
2. Interest, dividends and trading profits on securities...	60.0	70.9	89.1	92.8	89.7	99.6	101.3	91.6	100.8	111.4
3. Exchange, commission, service charges and other current operating earnings.....	36.7	40.6	43.5	46.4	47.2	52.7	55.8	68.5	70.0	75.5
4. Total current operating earnings.....	154.0	171.7	203.3	229.3	243.4	268.0	282.1	315.8	337.1	378.5
CURRENT OPERATING EXPENSES										
5. Interest on deposits.....	28.7	34.8	41.1	46.6	50.9	55.0	57.9	58.3	61.5	65.7
6. Remuneration to employees.....	51.8	56.4	65.4	78.9	87.2	95.2	102.2	117.2	125.3	133.4
7. Provision for taxes.....	15.0	15.0	19.2	21.4	19.5	21.5	20.7	27.2	33.4	37.7
8. Contributions to pension funds.....	3.6	3.8	8.0	9.5	10.6	11.1	11.7	12.3	12.6	13.0
9. Provision for depreciation of bank premises.....	2.3	3.2	3.4	3.5	3.6	4.2	6.7	7.5	7.0	7.1
10. All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	23.4	23.8	26.9	30.5	34.5	37.0	37.8	43.7	45.5	48.9
11. Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	124.8	137.0	164.0	190.4	206.3	224.0	236.9	226.2	235.3	305.8
SUPPLEMENTARY INFORMATION										
12. Dividends to shareholders.....	9.4	9.6	12.6	14.2	14.9	15.1	15.6	17.3	18.6	20.4
13. Net amount of current operating earnings available for losses or specific provision for losses and for general contingencies.....	19.8	25.1	26.7	24.7	22.2	28.9	29.6	32.3	33.2	52.3
14. Net amount of capital profits, including non-recurring profits.....	1.3	-0.5	0.3	-0.2	-0.8	-1.2	-1.4	0.9	-0.3	-0.5
15. Average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen years ending with the year to which this return relates....	13.4	12.2	9.4	7.7	6.4	5.3	5.1	7.8	9.4	7.8

STATEMENT OF EARNINGS AND EXPENSES AND OTHER INFORMATION OF THE CHARTERED BANKS
FOR THE AVERAGE OF FIFTEEN FISCAL YEARS OF THE BANKS
(millions of dollars)

	1930 — 1944	1931 — 1945	1932 — 1946	1933 — 1947	1934 — 1948	1935 — 1949	1936 — 1950	1937 — 1951	1938 — 1952	1939 — 1953
CURRENT OPERATING EARNINGS										
1. Interest and discount on loans.....	73.2	68.4	65.9	65.4	67.1	69.8	73.7	80.2	87.5	96.3
2. Interest, dividends and trading profits on securities.....	39.8	43.0	47.0	51.0	54.5	58.7	62.8	66.1	70.1	75.0
3. Exchange, commission, service charges and other current operating earnings.....	27.6	28.5	29.6	30.9	32.0	34.1	35.8	38.9	42.1	45.6
4. Total current operating earnings.....	140.6	139.9	142.5	147.3	153.6	162.6	172.3	185.2	199.7	216.9
CURRENT OPERATING EXPENSES										
5. Interest on deposits.....	33.5	31.8	30.9	30.7	31.0	32.0	33.6	35.7	38.2	41.0
6. Remuneration to employees.....	42.7	43.2	44.6	47.1	50.3	54.2	58.5	63.8	69.6	75.8
7. Provision for taxes.....	10.6	11.0	11.7	12.6	13.4	14.3	15.1	16.4	18.1	20.0
8. Contributions to pension funds.....	1.7	2.0	2.4	2.9	3.6	4.2	4.9	5.6	6.3	7.1
9. Provision for depreciation of bank premises.....	1.8	1.9	2.0	2.1	2.3	2.5	2.9	3.2	3.6	4.0
10. All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	20.1	19.9	20.3	21.0	21.9	23.1	24.4	26.1	27.9	30.0
11. Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	110.4	109.8	111.9	116.4	122.5	130.3	139.4	150.8	163.7	177.9
SUPPLEMENTARY INFORMATION										
12. Dividends to shareholders.....	13.0	12.4	12.0	11.9	12.0	12.2	12.4	12.8	13.2	13.7
13. Net amount of current operating earnings available for losses or specific provision for losses and for general contingencies.....	17.2	17.7	18.6	19.0	19.1	20.1	20.5	21.6	22.8	25.3
14. Net amount of capital profits, including non-recurring profits.....	-0.1	.....	0.1	0.1	.....	-0.1	-0.1	.....	-0.1	-0.1
15. Average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen years ending with the year to which this return relates.....	13.4	12.2	9.4	7.7	6.4	5.3	5.1	7.8	9.4	7.8

EXHIBIT No. 12

STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS AS AT DECEMBER 31st

(millions of dollars)

ASSETS	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. and 2. Gold and subsidiary coin held in Canada.....	8.4	10.2	10.7	10.9	11.2	11.9	14.1	14.9	16.8	18.4
3. and 4. Gold and subsidiary coin held elsewhere.....	2.4	2.6	2.7	3.3	2.9	2.3	2.1	1.6	1.7	1.4
5. Notes of Bank of Canada.....	139.4	162.9	176.9	183.9	190.8	211.8	231.3	273.1	272.5	263.8
6. Deposits with Bank of Canada.....	401.7	521.2	565.5	436.2	547.3	541.7	578.6	619.0	626.6	623.9
7. Notes of and cheques on other banks.....	243.3	280.4	328.4	361.5	400.0	335.1	449.7	627.3	739.9	762.4
8. Government and bank notes other than Canadian.....	101.4	96.6	92.9	124.0	91.2	107.3	39.7	41.2	41.6	43.3
9. Deposits with and balances due by other chartered banks in Canada.....	2.4	2.3	2.4	2.4	2.1	1.0	1.3	.8	.2	.4
10. Due by banks and banking correspondents in the United Kingdom.....	40.0	30.0	29.4	28.4	29.0	17.8	23.6	20.3	20.2	21.6
11. Due by banks and banking correspondents elsewhere than in Canada and the United Kingdom.....	172.7	186.9	162.3	162.7	163.5	184.6	233.9	227.6	261.8	269.1
12. Dominion Government direct and guaranteed securities maturing within two years, not exceeding market value.....	1,788.9	1,289.9	1,199.7	620.5	785.8	888.8	822.7	734.5	1,007.0	736.4
13. Other Dominion Government direct and guaranteed securities, not exceeding market value.....	1,147.3	1,982.8	2,117.6	2,027.7	2,173.1	2,223.6	2,256.2	2,019.2	1,777.2	2,033.8
14. Provincial government direct and guaranteed securities maturing within two years, not exceeding market value.....	151.8	126.4	108.7	110.2	136.1	127.3	116.6	100.5	177.3	146.2
15. Other provincial government direct and guaranteed securities, not exceeding market value.....	140.9	188.4	207.7	357.6	339.6	318.0	299.0	254.6	201.7	188.1
16. Canadian municipal securities, not exceeding market value.....	76.5	91.0	115.5	133.3	139.9	161.3	193.7	167.3	159.4	151.9
17. Public securities other than Canadian, not exceeding market value.....	210.1	241.6	275.5	270.9	241.6	242.4	193.0	200.3	255.2	235.9
18. Other bonds, debentures and stocks, not exceeding market value.....	95.8	118.8	207.2	353.9	451.6	383.5	405.3	399.3	377.4	348.7
19. Call and short (not exceeding thirty days) loans in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....	91.8	251.2	135.5	104.9	101.4	132.5	134.0	107.3	154.5	153.5
20. Call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....	95.9	120.5	77.1	55.8	78.2	69.6	100.3	131.4	170.1	271.7
21. Current loans and discounts in Canada not otherwise included, estimated loss provided for.....	1,182.2	1,227.1	1,453.8	1,921.3	2,077.0	2,173.9	2,651.1	2,901.1	3,188.1	3,790.3

STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS
AS AT DECEMBER 31st.—Continued

(millions of dollars)

Assets	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
22. Current loans and discounts elsewhere than in Canada not otherwise included, estimated loss provided for.	130.3	150.8	178.0	233.8	240.2	210.9	246.5	278.0	264.5	268.1
23. Loans to provincial governments.	11.5	26.1	28.6	37.1	15.2	25.3	40.8	33.3	4.6	10.6
24. Loans to cities, towns, municipalities and school districts.	17.5	21.1	24.8	40.6	55.5	71.9	84.3	93.9	96.7	96.4
25. Non-current loans, estimated loss provided for.	1.4	1.0	.9	1.2	1.1	1.2	1.3	1.5	1.3	1.6
26. Real estate other than bank premises.	2.5	1.9	.8	.6	.5	.4	.3	.1	.1	.1
27. Mortgages on real estate sold by the bank.	2.3	2.0	1.6	1.2	.9	.7	.5	.4	.4	.4
28. Bank premises, at not more than cost, less amounts (if any) written off.	62.5	63.1	64.2	70.1	77.8	86.5	106.1	120.0	125.4	109.4
29. Liabilities of customers under acceptance and letters of credit as per contra.	121.1	140.7	212.9	201.2	205.5	163.7	237.7	224.9	199.0	155.2
30. Deposit with the Minister of Finance for the security of note circulation.	2.3	1.7	1.3	1.1	.9	.8				
31. Shares of and loans to controlled companies.	10.6	10.4	10.3	10.9	12.2	16.3	7.9	12.8	11.9	26.5
32. Other assets not included under the foregoing heads.	4.2	4.5	5.7	6.8	7.4	6.1	4.3	3.6	4.3	3.2
TOTAL ASSETS.	6,459.1	7,353.2	7,798.6	7,974.0	8,579.5	8,718.2	9,495.9	9,609.8	10,157.4	10,732.3

STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS

AS AT DECEMBER 31st—*Concluded*

(millions of dollars)

LIABILITIES	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. Notes in circulation.....	33.6	25.7	21.4	18.2	16.2	14.0	.4	.2	.2	.1
2. Deposits by and balances due to Dominion Government.....	763.2	922.1	365.9	262.2	276.6	200.1	338.9	134.7	34.1	496.5
3. Deposits by and balances due to provincial governments.....	88.4	91.1	126.0	113.6	149.3	167.4	160.6	187.1	220.5	170.8
4. Advances from Bank of Canada, secured.....										
5. Deposits by the public, payable on demand, in Canada, in Canadian currency.....	1,862.3	2,062.9	2,290.8	2,295.6	2,543.6	2,426.5	2,770.4	2,962.7	3,242.1	3,180.1
6. Deposits by the public, payable after notice or on a fixed day, in Canada, in Canadian currency.....	2,423.0	2,865.3	3,469.3	3,740.4	4,057.0	4,433.3	4,558.4	4,611.5	4,924.5	5,034.1
7. Deposits in Canada, in currencies other than Canadian.....	65.8	51.8	96.7	86.7	79.0	79.4	101.5	118.6	159.5	196.8
8. Deposits elsewhere than in Canada.....	680.3	760.4	716.0	737.5	731.9	650.7	633.5	676.6	705.5	741.3
9. Deposits by and balances due to other chartered banks in Canada.....	19.1	19.1	24.7	29.1	38.1	94.0	117.1	159.7	157.9	182.4
10. Deposits by and balances due to banks and banking correspondents in the United Kingdom.....	32.0	35.3	32.8	39.1	37.6	37.4	42.7	47.1	35.2	33.0
11. Deposits by and balances due to banks and banking correspondents elsewhere than in Canada and the United Kingdom.....										
12. Acceptances and letters of credit outstanding.....	62.8	75.5	103.8	101.9	89.1	88.2	144.1	105.2	90.6	105.2
13. Liabilities to the public not included under foregoing heads.....	121.1	140.7	212.9	201.2	205.5	163.7	257.7	224.9	199.0	155.2
14. Dividends declared and unpaid.....	5.8	3.3	3.6	5.4	6.4	6.7	6.9	4.0	4.4	4.7
15. Rest or Reserve Fund.....	1.2	1.2	2.0	3.1	3.3	3.4	2.8	2.7	2.4	2.8
16. Capital paid up.....	136.8	136.8	176.8	181.8	185.8	190.5	197.5	209.2	200.1	260.4
	145.5	145.5	145.5	145.5	145.5	145.5	145.5	148.4	148.8	152.5
TOTAL LIABILITIES.....	6,440.9	7,336.7	7,788.2	7,961.3	8,564.9	8,700.8	9,478.0	9,592.6	10,144.8	10,715.9

EXHIBIT No. 13

THE CHARTERED BANKS OF CANADA

BRANCHES

Location of Branches at December 31, 1953

Alberta	270
British Columbia	328
Manitoba	175
New Brunswick	107
Newfoundland	45
Nova Scotia	149
Ontario	1,352
Prince Edward Island	23
Quebec	1,229
Saskatchewan	247
Yukon and North West Territories	8
	<hr/>
	3,933
Outside Canada	116
	<hr/>
Total	4,049

*Canadian Branches at December 31st, 1953**Bank*

Bank of Montreal	598
The Bank of Nova Scotia	387
The Bank of Toronto	248
The Provincial Bank of Canada	350
The Canadian Bank of Commerce	646
The Royal Bank of Canada	724
The Dominion Bank	182
Banque Canadienne Nationale	559
Imperial Bank of Canada	234
Barclays Bank (Canada)	4
The Mercantile Bank of Canada	1
	<hr/>
Total	3,933

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Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

Decennial Revision of the Bank Act

THURSDAY, MARCH 18, 1954

WITNESS:

Mr. Graham Towers, C.M.G., Governor of the Bank of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954





MINUTES OF PROCEEDINGS

THURSDAY, March 18, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gagnon, Hanna, Hellyer, Huffman, Hunter, Low, Johnston (*Bow River*), Macnaughton, Matheson, McIlraith, Mitchell (*London*), Noseworthy, Philpott, Picard, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: The Hon. D. C. Abbott, Q.C., Minister of Finance; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. Graham Towers, C.M.G., Governor of the Bank of Canada; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of the Bankers' Association and Vice-President and General Manager, of the Royal Bank of Canada; Mr. C. B. Neepole, Assistant General Manager of the Royal Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal and Mr. J. Fiott, Assistant to the General Manager of the Bank of Nova Scotia.

The Committee commenced consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Towers called, made a statement on the *Post-War Monetary Policy* and was examined thereon.

The Clerk of the Committee was directed to procure the following documents for distribution to Members of the Committee, viz.:

An Act respecting Banks and Banking, being Chapter 12 of the R.S.C., 1952;

An Act to incorporate the Bank of Canada, being Chapter 13 of the R.S.C., 1952, and

The Annual Report of the Bank of Canada for the year 1953.

At 1.05 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.50 o'clock p.m. this day. Mr. David A. Croll, Chairman, presiding.

Members present: Messrs. Adamson, Ashbourne, Balcom, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Huffman, Hunter, Low, Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, Noseworthy, Philpott, Picard, Pouliot, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: The Hon. D. C. Abbott, Q.C., Minister of Finance; Mr. Graham Towers, C.M.G., Governor of the Bank of Canada; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of the Bankers Association and Vice-President and General Manager, of the Royal Bank of Canada; Mr. C. B. Neepole, Assistant General Manager of the Royal Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal and Mr. J. Fiott, Assistant to the General Manager of the Bank of Nova Scotia.

The following documents were tabled and copies distributed to Members of the Committee:

An Act respecting Banks and Banking, being Chapter 12 of the R.S.C., 1952;

An Act to incorporate the Bank of Canada, being Chapter 13 of the R.S.C., 1952, and

The Annual Report of the Bank of Canada for the year 1953.

The Committee resumed the examination of Mr. Towers on his statement on the *Post-War Monetary Policy*.

At 5.35 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, March 23, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

THURSDAY, March 18, 1954,

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum.

The first witness today is Mr. Graham Towers. He has a statement which he will read and then you will question him. We have also in attendance this morning Mr. G. K. Bouey, Assistant Chief of the Research Department, Bank of Canada, and the gentlemen on my left are Mr. C. F. Elderkin, Inspector General, and the Hon. Mr. Abbott, the minister.

Mr. G. F. Towers, Governor of the Bank of Canada, called:

The WITNESS: Mr. Chairman, I judge from what I read in Hansard and what I was told subsequently that the committee would wish me to say something about the activities of the Bank of Canada, particularly in the post-war years; in effect to give a review of post-war monetary policy; and that is what I propose to do.

I should say that the statement which I have prepared is not in any sense an economic treatise. It does not dot all the economic i's", still less cross the "t's", but rather tries to hit the high spots of our post-war policy. A more extensive coverage would have involved a very lengthy statement and I am sure the committee will find the statement which I have here is quite long enough. If there are gaps perhaps they can be filled in during the course of the questioning. Finally, without, I hope, falling in the trap of protesting too much, may I say, I have attempted to be objective in my approach. To be successful in that attempt is a very difficult thing, perhaps an impossible thing for a person who has been very closely connected with the events under discussion. It may be that I give the Bank of Canada the benefit of the doubt at various points but if so at least it has not been done intentionally.

As background for any discussion of financial or economic policies in the post-war period, it is worth recalling some facts about the over-all production and price changes which took place in Canada during that time:—

- (a) From 1946 to 1953 our total production of goods and services rose by about 32 per cent in physical volume.
- (b) The price level rose less in Canada, relative to pre-war, than it did in the United States, and it rose considerably less in Canada than in most other countries.

Since there were virtually no idle resources in Canada during these years, an increase in monetary demand over what actually occurred would have resulted mainly in higher prices and only to a minor extent in increased production. On the other hand, it is probable that the rise in our price level could not have been held substantially below that which occurred in the United States without sacrificing an appreciable part of the increase in production which was achieved here. If this is so, then Canada came close to attaining the optimum combination of results, i.e. an increase in production close to the maximum physically possible, combined with an increase in our price level which was close to the minimum possible in view of the upward

sweep of United States and world prices. This, however, is a matter on which each will have his own judgment, and I only mention here the facts about our production and price changes so as to establish some kind of a practical background against which monetary policy and its effects can be viewed.

To begin with, let me mention briefly the effects of the war on our financial structure and describe that structure as it stood on March 31, 1946, the date which I am going to take as the starting point of the post-war period in the field of finance. I pick this date because it represents the commencement of the first fiscal year after the end of the war, and the year in which the budget came back into balance.

During the seven fiscal years 1940-46 inclusive, the government had managed to cover approximately 57 per cent of its expenditures by current revenue. In the process it had collected in taxes an amount which, it was commonly thought, was fairly close to the maximum which could be obtained even in war-time without a serious adverse effect on the willingness to work. Nevertheless, the government had budgetary deficits totalling more than \$10,000 millions over the seven fiscal years under discussion. The counterpart of these tremendous deficits was, of course, equally vast sums of money flowing into the hands of the public. To the extent that these sums could not be recovered by borrowing from the public, borrowings from banks had to remain outstanding and constituted a net addition to the amount of money in the hands of the public. In view of the limitations on the supply of civilian goods and services which could be made available for sale during the war years, the inflationary possibilities of the situation were clearly very substantial. This was the reason why great efforts were made in victory loan campaigns to persuade people to buy and hold victory bonds during the war.

Despite strenuous attempts to finance the war by taxation and non-inflationary borrowing it became clear by the autumn of 1941 that these defences against inflation had to be supplemented by further measures if the gathering spiral of prices and costs was to be held in check. The government introduced an over-all price ceiling and wage control. At one time or another it instituted the rationing of a number of commodities, and in some cases it also used subsidies in order to enable maintenance of the price ceiling on certain goods. These controls taken together made it easier for people to save, and particularly in the case of rationing imposed some degree of involuntary saving on the public. Added to what I am sure would have been a high level of voluntary and patriotic saving in any case, they brought personal saving up to the extraordinarily high level of 25 per cent of disposable personal income in the year 1944. This saving obviously had an important bearing on the amount of victory bonds which the public was able and willing to buy.

Over the whole period from March 31, 1939, to March 31, 1946, there was a great increase in the accumulated liquid savings of individuals and corporations, corresponding to the budgetary deficit which I have already mentioned plus the government's non-budgetary cash requirements. The public's holdings of government securities increased by more than \$8,000 millions, to three and a half times their pre-war total, and the public's deposits at the chartered banks rose by \$2,700 millions to more than double their pre-war level. The bank deposit component of the public's war-time saving had as its main counterpart the \$2,500 million increase in the chartered banks' holdings of government securities over this period. There was only a small net increase in bank loans.

During the war period and up to March 1946, consumer prices rose by about 20 per cent in Canada, and wholesale prices by about 40 per cent. This was generally felt to be a good record—certainly no other belligerent

did better—but a situation had been built up, here and elsewhere, which made some post-war increase in prices inevitable. As a result of war-time deficits, which were even greater proportionately in the United States and in most other countries than they were in Canada, the public in all belligerent countries had accumulated extraordinarily large holdings of liquid assets, either in the form of money or government bonds. As soon as the restraints imposed by patriotism were removed, the public in all these countries would want to use their liquid assets to buy things which they had gone without during the war, but which could not yet be available in the volumes desired. Particularly if price controls and various other controls were removed quickly an upward surge of prices and costs was certain to occur.

In the United States, by the spring of 1946, the early termination of price controls was being discussed and was clearly in prospect. In the event, the powers of OPA were allowed to expire on June 30, 1946, and although they were partially reinstated several weeks later, general price control was brought to an end in the United States about October. U.S. consumer prices increased by about 15 per cent and wholesale prices by about 25 per cent between June and December 1946, and by the latter part of 1948 were 30 and 50 per cent respectively above the June 1946 level.

It was clear that price increases in the United States could not fail to bring about a roughly comparable rise in the Canadian price level, with some lag, unless our exchange rate rose in relation to the U.S. dollar. Actually our exchange rate, which throughout the war had been at a discount of 9 per cent versus the U.S. dollar, was brought to parity at the beginning of July, 1946, and this helped to cushion the first impact on Canada of early decontrol in the United States. I do not believe that it would have been possible for us to receive further protection of this kind against the effect of rising external prices, by having the Canadian dollar stand at a really substantial premium over the U.S. dollar. On the other hand, while the rise in United States prices was bound to produce some price increase in Canada as in every other country, it did not in any way set an upper limit to that increase. The increase could have been much greater here than in the United States; this did in fact happen in many countries.

Although the most immediate source of upward pressure on Canadian prices came, therefore, from outside our boundaries and was largely beyond our powers to control or offset, the situation within Canada was also a matter for concern because it did contain some strong inflationary possibilities. As I have already mentioned, the Canadian public had greatly increased its holdings of liquid assets in the form of bank deposits and government securities, which had risen from about \$6,000 millions before the war to about \$17,000 millions. Many of the holders were keen to use these liquid assets over the next few years to buy things which they had not been able to get during the war. Individuals wanted to build houses or to buy cars, or to improve their household furnishings or clothing, for example. Industry in general wanted to move ahead as rapidly as possible with the capital development which it had forgone during the war and which has been such a prominent feature of our post-war economy. The desire to make such expenditures, backed by an amount of liquid assets nearly triple the pre-war level, contrasted with a level of gross national product which was slightly more than double pre-war. There was clearly danger that we might try to catch up on our deferred expenditures too quickly—that as price and wages controls gradually had to be removed and particularly as subsidies were terminated, our own actions might give added impetus to the upward push on our prices which originated in the United States.

However, as we faced the post-war period the threats to our economic stability were not all of inflationary character. Canada had never been prosperous except when exports were high, and the western European countries, whose markets are very important to our export industries, had suffered severe physical and economic damage from the war. The reconstruction loans which we had made to these countries would prevent any collapse of our exports to them, but were far from guaranteeing the high level of exports needed for our prosperity. By 1946 it was apparent that Russia was out to promote disruption and hold back reconstruction in western Europe, but it was not realized then that Russian attitudes and actions would be so extreme as to produce effects on public psychology, and on military budgets, which would add to inflationary influences in the United States and elsewhere. Similarly, General Marshall's bold and unprecedented proposals for United States assistance to European recovery and the rebuilding of world trade were still veiled in the future. The level of exports which we were to achieve through the later forties was not foreseen. It seemed possible that we might experience the paradoxical situation of serious unemployment arising from disruption of our export trade with overseas countries, at the same time that our price level was increasing sharply under the pressure of rising prices in the United States.

The factors in the outlook which I have mentioned—some inflationary and deflationary—were not the only ones to be considered in deciding what policies the Bank of Canada should adopt in the post-war period. Weight—great weight—had to be given to the desirability of encouraging the most rapid possible transition to civilian activity of the one and three-quarter million people who would be leaving the armed forces or ceasing the production of war supplies. It was also essential that private capital development—reduced to a relatively low level during the war—should be expanded rapidly so as to increase our productive capacity. The more production could be increased, the better chance there was of avoiding inflationary price increases, as long as capital development did not proceed so rapidly as to create domestic inflationary pressures on its own account.

It had also to be borne in mind that, except within narrow limits, Canada could not in practice insulate herself from external price increases. As United States prices rose, Canadian prices would be pushed up first in import and export lines and then generally. This would automatically increase the legitimate working capital and bank credit requirements of business. To this extent, what appeared to be excess liquidity was required to finance business at the higher price level forced upon us by the rise in United States prices, and would be, so to speak, "mopped up".

With this background, let me turn now to the field of monetary policy. One possible course of action would have been to adopt the rigorous policy of preventing any increase in the volume of bank deposits held by the public during the early post-war years. Now, an increase in bank loans will cause a rise in bank deposits unless it is offset by sales of government bonds by the banks. In view of the prospective expansion of civilian business, and the effects of rising U.S. prices, there was certain to be need for a large increase in bank loans, and so the rigorous policy I have mentioned would have required large sales of government securities by the chartered banks if the need for loans was to be met. The rigorous policy would also have involved the Bank of Canada in selling government securities so as to reduce chartered bank cash reserves to the point where the chartered banks would have felt unable to increase their loans without liquidating security holdings. Following this policy would

have caused a substantial rise in interest rates and a correspondingly substantial fall in the price of bonds, such as occurred after World War I. It would have tended to have the following effects:—

- (a) It would have caused a very considerable degree of uncertainty among businessmen as to the basis on which they could carry out reconversion activities and plan capital expansion. This in itself would have hampered or delayed the absorption of service men and women, war workers and war industry into peace-time activities, and would, I believe, have caused an unnecessary degree of unemployment and disruption of business.
- (b) The rise in bank loans would have been much less than that which actually took place. It would have been more difficult and expensive for business firms to build up their war-depleted inventories of civilian goods, or even to carry a depleted level of inventory at the higher current costs as U.S. prices rose. It would have been more difficult and expensive for business to carry the rising volume of receivables involved in the expansion of output.
- (c) It would have been more difficult and expensive for provinces, municipalities and business concerns to borrow from the public by means of sale of securities. There would have been fewer bond issues in the early post-war years and less expansion of hydro-electric capacity and other industrial plant and equipment, roads, schools, sewer and water facilities, and other forms of physical assets. Some essential projects would have been held back.

The rigorous monetary policy which I have been discussing would certainly have reduced the demand for labour and materials in Canada, but even this rigorous policy would not have insulated Canada from the effects of the upward sweep in world prices and in that sense would have been doomed to fail. The most which it could have done would have been to prevent a relatively small part of the rise in our price level which actually took place from 1946 to 1948, and if persisted in it might have helped to induce some perceptible fall in prices in 1949.

In fact, a rigorous monetary policy of the type described was not adopted. It was felt that the degree of possible benefit to our price and cost structure would not be commensurate with the damage done in hampering reconversion and holding back capital development.

I should add at this point that so far as I am aware no student of monetary affairs advocated the rigorous policy which I have described. Some have felt that a somewhat tougher policy than that which was actually followed would have been advantageous. However, they usually do not define specifically what is meant by a somewhat tougher policy, or spell out what difference they think it would have made in price levels, capital investment, employment and so forth. Their difficulty—and it is a very real one—is in assessing how fierce a rearguard action against the effect of rising U.S. and world prices would have been required to produce a given and relatively small subtraction from the increase in the Canadian price level which actually occurred. For myself, I do not know how far—if at all—our price level would have been lower if a somewhat more restrictive policy had been pursued. What can be said is that, relative to its pre-war position, the price level is lower today in Canada than in any other country which was allied with us in World War II. This does not of course alter the fact that the rise in prices during this time has been very substantial.

Let me turn now to a description of monetary policy since the war. I shall preface my remarks by quoting from a statement made in the Bank of Canada's annual report issued in February 1944 immediately following a reduction in the

bank rate. Having mentioned that the stage had now come when many were having to give thought to the economic problems which would arise after the war, the report went on to say:—

One factor which will affect decisions is the prospective cost of borrowing. It therefore seems appropriate that the Bank should, by reducing its rate, signify its intention to continue the kind of monetary policy which has brought about the current level of interest rates. A policy aimed at higher interest rates would only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of rising interest rates.

Admittedly, the rate of interest is only one of many factors influencing Canada's economic position, and it is probably not as important an instrument of control as was once supposed. It remains true, however, that the prospect of unstable interest rates could make it exceedingly difficult for business to formulate long-term plans. Moreover, high borrowing costs would hamper new investment in plant, equipment and housing, would restrict the expansion of employment, and would seriously complicate the task of government financing.

Two things lay behind that statement:—First, our concern with business difficulties in the period of transition from war to peace, and secondly the rather widespread fears, which commenced to become apparent in 1944, that shortly after the conclusion of war and the completion of war financing bond prices would collapse as they had after the first world war. We felt it necessary to give a firm indication that chaotic conditions would not be allowed to develop. I would be the first to admit that there is much to be said against a central bank giving indications of policy so far in advance. At the time, it appeared to us that it was even riskier not to give such advance indication—hence the statement which I have just quoted.

In the event, the shift from war to peace in the economic field took place quickly and smoothly, with a minimum of unemployment. The relative magnitude of the shift was much greater than in 1919-20, and was accomplished much more satisfactory. Looking back on those years, one might feel there had been too much concern about the problems of transition. In my opinion, however, it would have been wrong for people in positions of responsibility to have taken a complacent or cocksure view of the outlook. I believe that the various moves which were made, both in the domestic and international fields, to facilitate the transition contributed materially to the relative smoothness with which it took place.

From 1946 to 1949, the Bank of Canada directed its efforts to keeping chartered bank cash reserves from rising and restraining the use of bank credit, without at the same time producing really unsettled conditions in the bond market. It must be said at once that under certain circumstances these two aims were a pair of horses which could not be driven in double harness. Concern with reasonable stability of bond prices and interest rates tended to have priority. This did not prevent a downward movement in long-term government bond prices in 1948 of about 4 points, and a rise in yields of about .35 per cent.

Chartered bank cash reserves, which averaged \$672 millions in 1946 and \$670 millions in the following year, rose to \$711 millions in 1948. The comparative steadiness of the absolute amount of these reserves in the 1946-48 period did not, however, prevent bank loans and deposits from increasing by \$700 millions and \$1,100 millions respectively during that time. The ratio of reserves to deposits had been comparatively high in 1946, averaging 11.4

per cent in that year, and was down to 10.4 per cent at the end of 1948. Over this period the banks reduced their holdings of government securities by more than \$300 millions.

During the post-war years the chartered banks made considerable purchases of provincial, municipal and corporate bonds. Their purchases of corporate securities were particularly large in 1947, and in that year there were also signs that some businesses were using bank credit to finance capital expenditure. By the beginning of 1948 it was apparent that businesses intended to make even larger capital expenditures than in the preceding year and that this would involve undue pressure on available labor and material resources. Accordingly, in February 1948, the Bank of Canada suggested to the chartered banks that under existing conditions it was undesirable for capital expenditures to be financed through expansion of bank credit. We suggested that it would be preferable for borrowers to obtain such funds by the sale of securities to the public, except in the case of those borrowers, mainly small concerns, for whom a public issue would not be an appropriate means of financing. This suggestion, which had a marked restrictive effect on the extension of bank credit while it was being followed, was withdrawn in February 1949 when it became apparent that some decline in the physical volume of business capital outlays was in prospect.

By 1949, it seemed that postwar inflationary pressures had come to an end. It is true that business activity in the United States, after a perceptible drop in 1949, picked up well in the first half of the following year. I am convinced, however, that serious inflationary pressures would not have returned to plague us had it not been for developments associated with the outbreak of hostilities in Korea. In 1949 the chartered banks' average cash reserves increased to \$746 millions, and the banks were net buyers of Government securities.

I turn now to the period since June, 1950. The events associated with the commencement of the fighting in Korea made it certain that fresh inflationary pressures would develop. It seemed proper to assume that the cold war would be of long duration. In these circumstances, it appeared to be unwise to rely on direct controls to combat inflation because such controls are likely to be unworkable, or at best short-lived, except in times of all-out war.

In the monetary field in Canada, the first complication arose from a tremendous influx of capital, mainly from the United States, based on a view that our exchange rate was too low and would be raised. This capital inflow is estimated to have been some \$700 millions between early July and early October. Under the regime of the fixed exchange rate, the government was obligated to buy all U.S. dollars offered to it at the established rate, and our reserves of gold and U.S. dollars rose by about the same amount of \$700 millions in this three month period. The government ran out of funds with which to finance these purchases, and the Bank of Canada stepped into the picture by financing the exchange fund to the tune of \$393 millions during August, September and early October. To avoid a consequential increase of a very large amount in the chartered banks' cash reserves, the Bank of Canada sold government securities in the market, to the extent of a net \$337 millions over this period. I should imagine that in relation to the size of the Canadian economy, and the period of time involved, this was the largest open market operation in central banking history. It counteracted the effect of the capital inflow on the banks' cash reserves but it could not in itself stop the inflow, and indeed by causing government bond prices to be lower than they would otherwise have been, it made Canadian bonds more attractive to external investors. As the inflow showed no signs of abating but rather of increasing, the government decided to let the exchange rate go free as

of October 2nd. The speculative inflow of capital stopped at once and the Bank of Canada was then in a position to take steps to get the money market in better control.

In the face of the rapidly rising demand for bank credit, and indeed for funds from all sources, our objective was not to prevent any increase whatever in bank loans or to make security issues impossible, which would have spelled strangulation of business. Our objective was to induce restraint.

I should mention at this point that by the end of 1950 we had a distinctly better chance than in the earlier postwar years of exerting a restraining influence without having to go to extremes in policy. While the banks were still in a very liquid position, their holdings of government of Canada securities represented some 36 per cent of their Canadian assets as compared with 53 per cent in March, 1946. Insurance company holdings of governments were down to about 30 per cent of their Canadian assets compared with 55 per cent at the earlier date. And the general public's holdings of marketable government of Canada bonds had been reduced by \$1,800 millions, i.e. from an estimated total of \$10,600 millions to \$8,800 millions, Government surpluses, used to retire debt, had clearly played a vital part in the process of reducing excess liquidity in the economy. So had the growth of the economy, and the rise in prices. Total public holdings of government securities and bank deposits, measured in relation to gross national product, were appreciably less than they had been in 1939, and were only two-thirds as great as in 1946.

In order to mark the change in approach which became practicable after Canada went on a flexible exchange rate at the beginning of October 1950, the bank raised its discount rate from $1\frac{1}{2}$ per cent to 2 per cent effective October 17, and issued the following statement:—

At the time the reduction in bank rate took place in 1944, the bank expressed the view that it did not then see any prospect of an economic situation in the postwar period of a character which would call for a policy of raising interest rates. The change to a 2 per cent bank rate is an indication that the earlier view no longer holds good under today's conditions when Canada faces the prospect of substantially increased defence expenditures adding to the pressure on the country's resources at a time of virtually full employment.

The banks found it necessary to sell government securities in order to meet the rising demand for loans. Life insurance companies and other lending institutions, faced with increasing demands for capital funds, were also heavy sellers of government securities. This involved falling prices and increasing yields in the bond market. As we passed the end of 1950, evidences of an inflationary psychology multiplied and bank loans were continuing to increase rapidly. Some type of direct holding action seemed necessary as a temporary supplement to the normal measures of restraint which were open to us. We therefore approached the chartered banks at the beginning of 1951 and asked them to co-operate in a policy of keeping down bank credit.

A central bank, not being gifted with divine powers, is never in a position to name the ideal amount of bank credit which should be outstanding at any given time. But when the increase is fast and furious, that is a clear indication that moderating pressures should be exercised if it is practicable to do so. I believe the co-operative arrangement with the banks made a distinct contribution to stability. After the arrangement was made in February 1951, the rise in the banks' total of Canadian loans and holdings of provincial, municipal and corporate securities tapered off, and by early 1952 the total had been brought back below the February 1951 level.

Government regulation of instalment finance was an important factor in bringing the total bank credit situation under control. In addition, in March 1951 the U.S. authorities abandoned their policy of pegging Government bond prices at par and there was an appreciable decline of bond prices in that country and in Canada. This had the effect of reinforcing the chartered banks' policies of credit restraint and tightening conditions in the capital market generally.

By the spring of 1952 some considerable reduction in the intensity of inflationary pressures was apparent and we felt it was possible to bring the special arrangements with the banks to an end in May of that year, leaving normal methods of central bank action to influence the total level of bank credit.

For some months following May, 1952, the increase in bank loans was relatively small. While one cannot be too precise about dates, and seasonal factors are a complication, I think it is correct to say that the most recent heavy upward movement in Canadian loans got under way about July or August of 1952 and, with some seasonal fluctuations, continued until about October of last year. During this period the banks found themselves under the necessity of reducing their portfolios of Government securities by more than \$200 millions in an effort to secure additional cash and to make room for at least part of the increase of some \$700 millions in their loans. Their selling of Governments had its effect on bond prices and interest rates, particularly in the shorter maturities. Thus the Government of Canada two-year bond yield rose from 2.86 per cent in August, 1952, to 3.36 per cent a year later. On five-year bonds the rise was from 3.41 per cent to 3.64 per cent, with somewhat smaller increases in yields on longer term bonds which were under less pressure than the short term issues.

The Bank of Canada was not a willing buyer of securities during this period. We felt that it was desirable that banks should tend to be reluctant lenders and should scrutinize applications with increasing care. But the Bank of Canada has never carried its reluctance in such circumstances to the point of refusing to buy government securities at any price. In the period between the end of August 1952 and August 1953 our holdings of government securities increased by \$88 millions, and the chartered banks' cash reserves rose by \$53 millions. Because of the increase in Canadian deposits during this period, the rise in cash did not suffice to maintain the chartered banks' cash ratio. In August 1952 it had been 10.3 per cent and by August 1953 the ratio had fallen to 10.1 per cent.

With some indication in recent months of a slowing down in credit expansion and abatement of inflationary pressures, the banks have moved into an easier position. Since October they have added appreciably to their holdings of government securities, whereas they had been net sellers over this period a year ago. Interest rates on government bonds have declined—based on mid-month quotations the typical two-year rate has fallen from 3.36 per cent in August 1953 to 2.47 per cent in March of this year, and the five-year rate from 3.64 per cent to 3.16 per cent. Indeed the whole government bond market has moved up, with fifteen-year securities on a 3.27 per cent yield basis in March as compared with the peak of 3.75 per cent in September 1953. There has been a similar and somewhat sharper reduction of yields in the United States market, where the upward movement of yields in the earlier part of last year had also been greater.

Before concluding my remarks, I think it might be appropriate to say something about the government securities market in Canada. If a central bank is to be able effectively to perform its functions of regulating the amount of the commercial banks' cash reserves and in this way to exercise an influence

on the whole credit structure and level of interest rates in the country, it badly needs a broad market in government securities in which to conduct its operations. Now, I may say that the majority of the world's central banks operate in countries where there is not a broad market for government securities. They try to make their policies effective in other ways, perhaps by the purchase and sale of gold or foreign exchange or by special devices suited to local conditions, but they inevitably operate under a handicap. The last thirty years has witnessed the creation of a great many central banks—no country wants to be without one. But it is much easier to draft the legislation for setting up a central institution than it is to create the financial structure which assists or enables the bank to do an effective job.

When the Royal Commission headed by Lord MacMillan was framing its recommendations for the creation of the Bank of Canada, it noted the fact that the new central bank would be somewhat handicapped by lack of a "money market" in Canada. At the time the bank commenced operations the short-term market, outside the banks, was almost non-existent, and while there was a reasonably good market for middle and longer-term government issues it was frequently difficult to trade in substantial amounts.

One of our first steps taken in co-operation with the government was to institute a fortnightly issue of treasury bills sold by tender. A few treasury bill issues had been made in pre-Bank of Canada days, but they were not a permanent feature of our financial structure. Moreover, as there was, practically speaking, no market for bills outside the commercial banks, they were not highly liquid and carried relatively high interest rates.

While the Bank of Canada has never taken a commitment to purchase Treasury Bills at all times, we have never yet refused to buy. The Treasury Bill has become recognized as the most readily saleable obligation on the market, and as such has commanded a relatively low rate of interest. It has become the practice of the chartered banks to hold Bills as a form of second line cash reserve. The amount which individual banks hold naturally varies substantially, going down if a bank's cash requirements increase and rising if they have surplus funds available for very short term investment. While holdings of Bills outside the banking system have at times been fairly sizeable, a large non-banking market has not developed.

We have endeavoured and are endeavouring in various ways to facilitate and encourage the growth of an outside market. A year ago the issue of Treasury Bills was changed from a fortnightly to a weekly basis, and the weekly offering was broadened to include 273-day Bills as well as the 91-day Bills which had been customary up to that time. There are now 39 Treasury Bill maturities outstanding at all times, making it possible for an investor to obtain Bills maturing in any given week within the next nine months. In its market purchases and sales of Treasury Bills during the past several years the Bank of Canada has progressively widened the spread between its buying and selling levels to create further incentive for the development of jobbing intermediaries. We have also made arrangements which enable dealers to avoid transit costs or interest charges in transferring Treasury Bills between Bank of Canada agency points. We believe that a broader interest in treasury bills has been and is developing in this country as our financial resources increase and more people find it advantageous to make use of this medium for very short term investment.

Growth of the market for short-term government of Canada bonds—say those up to two or three years maturity—has so far been more impressive than developments in the Treasury Bill market. As I have already mentioned, in 1935 there was practically no market for short-term securities outside the

banks. But at the present time, these securities are actively traded in by other buyers and sellers, and are held in large amounts by those requiring short term and highly liquid employment for surplus funds. Provinces and municipalities, as well as corporations, are important factors in the market. As an indication of the size of the holdings of non-banking investors other than government accounts, I may say that at June 30th last their holdings of government securities maturing within two years were estimated to be about \$800 millions. In order to encourage the development of a jobbing interest in such securities, we have in the past year instituted purchase and resale agreements in respect of government securities with a term of up to five years, with dealers who play a jobbing role in this area of the market.

As part of our programme to improve and broaden the money market for the benefit of lenders and borrowers and of our financial structure as a whole, the Bank of Canada has been a constant trader in government of Canada securities since we opened our doors in 1935. While the total amount of our holdings of government securities is necessarily determined by considerations of monetary policy, we have endeavoured to help make a market for all government issues and have been very substantial buyers and sellers. In a sense, we perform a jobbing function, holding the inventories which are indispensable to a good market. Investment dealers and banks also operate in this way, although naturally on a smaller scale. We would be glad to see both dealers and banks extend their operations of this character, and have the Bank of Canada play a smaller part, although we would always expect to be a substantial participant in the market.

While the development of an effective "money market"—and I put those words in quotes—might appear to be rather a technical affair primarily affecting the banking system, it is in reality a matter of much wider importance. A broad and responsive market in government of Canada securities, and the existence of the machinery which makes such a market possible, helps to develop a better market for other securities and to channel funds where they are most needed for the development of the country. The rate of capital investment which will be required to provide for Canada's growth is so great that we need to encourage the most efficient use of our domestic savings in every way we can.

The CHAIRMAN: Gentlemen, I will ask you to come to order. Mr. Macdonnell?

By Mr. Macdonnell:

Q. Mr. Towers, you have told us several things about the buying and selling of bonds by the Bank of Canada, and it occurred to me to ask you this question. To what extent is it true that in 1945 there was a definite belief among our financial authorities that interest rates could really be stabilized where they were? I want to say one word, by way of explanation. I think it was very widely believed at that time that in fact that had been represented to the public. I was speaking to a member of the bond community who told me that bonds could not go below par because Mr. Ilsley said they couldn't. I pointed out two things; first of all, Mr. Ilsley never said that, and secondly, I asked him how he thought Mr. Ilsley could prevent it. That was a man quite well known in the bond community. For obvious reasons, I shan't mention his name, but that is what he said to me. I would like to ask if you would comment on the situation at that time? I might add this occurred during a conversation with him in January, 1947, I think; however, you would know whether that was the right month, when there had been a considerable drop in the bond market from about 105 to 102.—A. I think that was the beginning of 1948. As I mentioned in my earlier remarks,

there had been, prior to the end of the war, a considerable fear that bond prices would "collapse"—that was the word which was freely used—after the end of the war. That was one of the reasons why certain general statements were made to indicate that a collapse need not be feared, and that orderly conditions would be maintained. It was possible to maintain orderly conditions by a combination of central bank purchasing of government bonds and on various occasions the use of surplus government funds to buy bonds in the market. It would not have been completely impracticable to keep the rate stable all through the post-war period but in the later stages the general disadvantages of doing so and thus stimulating inflationary pressures would have been, I believe, very considerable.

Up until the outbreak of hostilities in Korea, it was felt that the disadvantages of creating conditions which would have resulted in a really serious break in the bond market and an increase in interest rates outweighed the advantages. That situation, I believe, changed after Korea and as I mentioned earlier in my remarks, the influence which could be exerted at that time by what might be called a moderate policy was much greater than it could have been in the early post-war period because the degree of liquidity of our institutions and people had declined very materially.

Q. I understood you to say it would have been possible to keep the rate stable by market operations of the bank?—A. Yes.

Q. Without qualification? What I mean is this: Do you mean that the three per cent rate which many people believed had been established in 1945 could have been maintained perhaps to this very day?—A. Yes, but at the cost, however, of considerably increasing the banks' cash reserves and of promoting more inflationary conditions than actually existed.

Q. I take it you are saying that it would not have been wise to do it? A. Yes.

Q. Now, without wanting to ask you for trade secrets, can anything more be said in order to enlighten us as to exactly how the Bank of Canada itself operates on the bond market?—A. The bank's operations can be divided into two compartments of which one is the principal compartment and the other is a small one beside it. The main compartment so to speak would consist in our buying government securities, and it does not matter whether they are treasury bills, short-term securities, or anything else. Our purchase of them would have the effect of increasing the chartered banks' cash reserves.

If that comes at a time when bank loans are going up materially, it will probably have this result: The banks will not need to sell government securities to make room for additional loans. That means that there is less selling of government securities in the market and the prices of government securities will be higher than they otherwise would have been. So, to repeat: In general the main effect of Bank of Canada operations in the security market is due to our influence upon the chartered banks' cash reserves.

We may, also, in a desire to promote orderly conditions, buy and sell government securities in the market—not in that case with a specific desire to increase or to decrease cash reserves, but rather with the desire of contributing to an orderly situation in the market.

As I said earlier, that is in essence a jobbing function rather than a monetary policy one. And perhaps I should add that there are differences in views in various countries as to whether central banks should or should not do that. Over the last twelve months in the United States the view has been that the Federal Reserve System should not do that.

Mr. FRASER (*Peterborough*): It would buy in the market, would it not?

The WITNESS: In the market, yes.

By Mr. Macdonnell:

Q. It might seem that it would not be an exaggeration of what you have said to make the remark that the interest rate is an artificial thing made by the Bank of Canada and has really very little to do with the demand in the market at all. I hope that is a very exaggerated statement. But let me ask you if that is the inference that one is to take, that the interest rate is really an artificial thing made by the Bank of Canada?—A. No. I would say it is not. Since the outbreak of hostilities in Korea our main effort has been to try to minimize an increase in the chartered banks' cash reserves. And in the process, while we did buy certain securities, we retreated and the market itself determined how far prices should go down.

Q. I do not want to be like a puppy with a rag, but let me change my question. Does that then mean that the market determines it unless you decide to step in and prevent the market from determining it?—A. I would say that it is a combination of two things: The extent to which we consider it wise to back away when there is a very heavy demand for funds, rather than to do something which would increase the chartered banks' cash reserves and the extent to which people want to sell government bonds.

If we backed away completely, let us say that the level of interest rates would be higher than it would otherwise be. If we come in a little, we exert some influence. This is really a combination of two things: The degree of intensity of the desire by others to sell government securities, and the extent to which we will back away in order to avoid increasing the chartered banks' cash reserves.

Q. Mr. Chairman, may I reserve the right to go back to that later if I wish? Now, Mr. Towers, you said that a rise in prices in Canada has been less than in any other country allied with us in World War II. Would you mind broadening that statement by making a comparison with other countries, and in doing so, would you mind making a comment on a statement which has been given a good deal of currency, that we are now a high cost economy?—A. One thing which I should mention of course is that these price level comparisons are ones between pre-war and now. They do not imply that the price level is necessarily the same here as in the United States. Perhaps, in some respects we were higher in 1939. That is another story. This is a comparison of the increase.

I have heard references to our being a high cost economy. Possibly the people who made those references have had a certain specific industry or situation in mind. It is very difficult to make generalizations in that field and I find it difficult to say that we are a high cost economy.

Q. Well let me change my question a little, if you please. I understand that what was originally said was that we are in danger of becoming a high cost economy.—A. Oh!

Q. Would you mind answering the question on that basis?—A. Well, I would think that slackening of inflationary pressures and greatly increased competition very materially reduces that risk.

Q. I shall only ask one more question at the moment. Would you mind saying a word about the recent sharp fall in the interest rate? You have already spoken, I know about the pressures from the United States? Would you mind commenting on what I understand was a sharp change of policy in the United States that was made recently? Would you please describe briefly for us what the change in United States was? I know you can do it better than I?—A. The United States policy is based upon the decisions of a group which they call their open market committee. They usually hold about four meetings a year, and the course of events last year is pretty well covered by the records of those

meetings. In March the instructions to the executive committee which handles open market operations during the year were to do their utmost to dampen inflationary conditions. In the course of those activities, interest rates continued to rise in the United States, and by the end of May or early June were at a peak, not for all time but for many, many years, and conditions in their government bond market were extremely tight. About the end of May it was apparently felt that they were going a bit far, and so in the June meeting of the committee they decided that, while still keeping an eye on inflationary conditions, they should ease up a bit. Very shortly after that the American bond market turned up. In the September meeting no mention was made of inflation, but it was decided that they should make sure that deflationary conditions did not arise in so far as money market action could prevent it. In the December meeting they went still further and instructed their open market committee to maintain a condition of active ease in money markets. This, of course, is all on the record for people interested in government securities to read and it has contributed to a very substantial rise in U.S. government security prices. That naturally has had its psychological effect here as well as certain actual effects. While in the Canadian system there is not the same form of market committee, it is the case, as I mentioned in my earlier remarks, that for four or five months now the banks apparently have not been under any pressure so far as cash reserves are concerned and have in that period added to their holdings of government securities which, of course, always has quite a significant effect on the market here.

Q. You are speaking still of the United States—A. No, I speak now of Canada.

Q. In other words, the bank here has helped the process a lot?—A. The pressure has certainly been lessened and gone somewhat the other way, as it has in the United States.

The CHAIRMAN: Mr. Quelch.

Mr. MACDONNELL: Might I ask one more question, Mr. Chairman?

The CHAIRMAN: Will it be very long?

Mr. MACDONNELL: I will wait.

The CHAIRMAN: I want to divide the time this morning. Mr. Quelch will take 15 minutes and then Mr. Tucker 15 minutes, and then Mr. Cameron or Mr. Noseworthy or Mr. Stewart can take 15 minutes, and then the dry run will be over and you can all start again this afternoon.

The WITNESS: May I just add one comment in order to conclude my remarks to Mr. Macdonnell? I should point out that the only way in which a central bank can discharge its duty is to try to influence the size of the credit structure as a whole and inevitably that influences interest rates, not just on government bonds, of course, but all kinds of interest rates.

Mr. MACDONNELL: Yes, I am glad you made that clear.

By Mr. Quelch:

Q. Mr. Chairman, at the present time in Canada a good deal of concern is being felt at the fact that produce accumulates, especially in regard to the question of agriculture, and we are given to understand that the two main difficulties in regard to our exports are, first of all, that the prices of our commodities may be too high in relation to the prices of similar commodities in other countries; and, secondly, the lack of dollars in the hands of the would-be purchasers. The Bank of Canada report for 1953, on page 17, states:

Some countries showed more interest in importing from the cheapest sources of supply regardless of the currency involved, although to date improvement of this type has been more evident in the field of essential foods and raw materials . . .

I do not know whether that implies that perhaps more goods are being bought from a dollar area on account of prices in spite of the shortage of dollars. Evidently that is not the case, because prices of agricultural products of Canada in relation to the prices of agricultural products of other countries are apparently high. I say that because Mr. Gardiner, in speaking before the F.A.O. last fall stated:

Our costs of production are very high. I do not think there is any country in the world today which can afford to buy some of our products at the prices our farmers must charge if they are to make a living.

That would imply that our prices are evidently high in relation to the prices of other countries. Now, what I am concerned about is this: do you consider that there are any steps of a monetary character that we can take to help to reduce costs of those commodities to the countries that require them? I state that because I have some experience in agriculture, and I am satisfied that so far as the farmers are concerned they are producing as efficiently as the farmers of any other country. I do not believe they can do very much to reduce their costs. If costs are to be reduced, it seems to me it has to be done by other methods. One thing I have in mind is the maintaining of the dollar at an appreciated rate above the American dollar. When the Canadian dollar was worth 90 cents, of course, the European countries were able to buy our commodities so much cheaper, but as a result of the Canadian dollar going up it has meant an increase in costs, either an increase in costs to them or a reduced price to us. Do you consider that there is justification today for maintaining the Canadian dollar at the present high rate?—A. That rate, of course, is established by market forces of demand and supply. I do not really feel that I am in a position to say that some other rate is desirable or not desirable.

Q. On page 4, you give the reasons why it is considered desirable to get the dollar back to par rather than 90 per cent. Then on page 9 you say that the price level in Canada in relation to the price level before the war is probably lower than or not higher than that of any other of our allies. Whilst there may be some substance in that, there is no suggestion of that being the case with the relation between our price level and that of other countries today, and there is no question that our price level today is higher than that of the U.S.A., and I understood the rate of exchange should be relative to the value of the currencies concerned. That is to say, if the American dollar will buy more in the U.S.A. than the Canadian dollar will buy in Canada; then the American dollar should be worth more. That is the situation today. The American dollar will buy more than the Canadian dollar. Secondly, I understand that the balance of payments of trade is a determining factor; we had an unfavourable balance of trade with the U.S.A. On the basis of those two factors, there seems to be every reason for the Canadian dollar to be below the American dollar, rather than *vice versa*.—A. First of all, in reference to the appreciation of the Canadian dollar, my remarks, of course, related to the situation in July, 1946, when our price level was distinctly below the American price level in relation to the pre-war base. It could be assumed at that time that their price level was going to go up a good deal and that we were bound to catch up to them. The appreciation of our dollar to par cushioned the effects of that situation and appeared to make a very useful contribution to minimizing the increase in the Canadian cost of living. That was the situation in 1946—a very inflationary time. It does not necessarily have any bearing on the situation today. As to the question of our dollar buying less than an American dollar, the effort to determine differences in purchasing power—approximate purchasing power—as between one country

and another is a very difficult one, and one never comes, I think, to a firm conclusion. All I could say is that relative to pre-war, our prices have not gone up more than theirs.

Q. That may be true.—A. Tariffs, railway freights and a host of things can lead to certain absolute differences in purchasing power between one dollar and another without setting up exchange movements.

Q. On the other hand you would agree, would you not, that maintaining the Canadian dollar at the present level is having certain detrimental consequences today, first of all in regards to our exports, and secondly on our tourist trade. We have always looked on our tourist trade as a mine of U.S.A. dollars, yet today we find Canadians going to the United States and spending more money in the States than Americans coming to spend in Canada, and we had a deficit of around \$60 million last year.—A. I doubt, although I could not prove it, whether the present level of the Canadian dollar has been a great deterrent to Americans coming up here, but I think it has been a great encouragement to Canadians going to the United States, and that, added to the relatively high level of income in Canada has produced the deficit in the particular trade which you mention.

Q. I was not suggesting it as a deterrent to Americans coming to Canada, but I was suggesting it was deterring them from spending in Canada. The fewer Canadians who went to the United States spent more than the larger number of Americans who came to Canada from the United States. Would it not be that they found the prices in this country higher than their own?—A. They would be higher on a number of articles.

Q. I have spent quite a bit of time in the United States and have found very very few commodities in the States higher than here.

By Mr. Quelch:

Q. Maybe I would not have if the Canadian prices had been lower. You act as an adviser of government policies?—A. One of their many advisers.

Q. Would you not advise at the present time in view of the fact that we are facing a difficulty in finding markets for primary products that it might be advisable to get the Canadian dollar down which would be one means of encouraging other countries to buy our commodities?—A. I think that if I were giving advice one way or the other it would have to be within the four walls of the minister's office, Mr. Quelch.

Q. Are we not letting our pride interfere a bit? Are we not a little too proud of the fact that the Canadian dollar is worth more than any other unit in the world?—A. I do not have any particular pride in that. I am sorry that the two currencies are called by the same name.

Q. I think the matter deserves considerable attention and I think an explanation should be given as to why action is not taken to bring the Canadian dollar down. The other point is—this comes within the fiscal policy, although I should imagine it is pretty clear, this is an operation between the Bank of Canada and the Department of Finance—is not the sales tax a factor as far as our prices are concerned?—A. That certainly is not directly in the Bank of Canada field, Mr. Quelch.

Q. You must discuss it because there would be a conflict if you have the Bank of Canada trying to increase the money supply and the government trying to reduce it. There must be consultation on that basis. You could not have the two departments working against each other?—A. I do not think that the sales tax gets into a field of monetary policy. If there is a desire to increase the money supply that can take place whether the tax is 2 per cent, 10 per cent or 12 per cent.

Mr. Low: As long as no change took place in the rates.

The WITNESS: Even if there was a change.

By Mr. Quelch:

Q. I have one other question on the scarcity of dollars amongst countries that are buying our goods. You will notice that many British cabinet ministers and U.K. high commissioners in this country have stated that the U.K. would like to buy more of our agricultural products; they want them. The main reason that they are not buying them is that they have not got dollars to buy them. They say if only Canada would buy more British goods thereby supplying them with the dollars they would be willing to buy more of our commodities. The only alternative would be that we would invest our surplus credits in the sterling area to provide the dollars.—A. I am very glad to say that one has heard a great deal less of that kind of thing in the course of the last couple of years than before. For a number of years after the war one would hear a great deal of: "We would be very glad to buy more of your goods if you would buy more of ours." But, back of that was a desire, conscious or unconscious, that we should buy more of sterling area supplies, mainly U.K., even if we did not want them and even if they cost more, by shutting out supplies from the United States or reducing them by quota. In many cases had we done that our people would have turned more to U.K. sources of supply assuming the goods were available. Indeed, that system was the badge of the sterling area. To be a member of the sterling area you had to cut down on dollar imports so that your buyers had to go to the U.K. for their supplies. Now, this of course is a matter of government policy, but Canada so far as I know never had any desire to adopt such a system. But, in recent years you hear much less of that from the other side and there is much more recognition that if one wants to buy commodities from Canada—and many people do because of their quality and their price—that you have got to try to earn the dollars by competition rather than by special discriminatory arrangements. I think that the change which has taken place in that respect is one of the most encouraging developments of the last couple of years.

Q. On the other hand you will admit that so far as our primary industries are concerned it is of great concern to them to be able to sell more to Europe because we cannot depend on the U.S.A. as a market for our primary products, and so long as the situation does exist where there is a shortage of dollars it is going to be today much more difficult to sell to the sterling areas?—A. Yes, but I am glad to say there is more opportunity now for us to sell if we can compete. If we cannot compete that is too bad. But, I believe we can, and there is much less in the way of discriminatory arrangements keeping us down to a certain quota, much less of that in the field of foodstuffs and primary products than there was a couple of years ago; and the Canadian hope is there will be still wider international trade in these major commodities.

Q. Would you say that that improvement has taken place within the last two or three months?—A. Oh no, it has been gradually coming along over the last couple of years.

Q. I noticed a statement made by the U.K. High Commissioner, which was made, I think, as recently as last fall, insisting that Britain wants to buy more, but hasn't got the dollars.—A. Well, the music of that old phrase still hangs in the air, but it doesn't mean now quite what it meant then.

Q. On the other hand, we have a substantial balance of trade with the U.K.?—A. A favourable balance?

Q. Yes.—A. Not as substantial as it was in the early post-war years, but still there is one, yes.

The CHAIRMAN: Mr. Quelch, perhaps you would give another member an opportunity to ask questions, you will have another opportunity to ask questions this afternoon.

Mr. QUELCH: Yes.

The CHAIRMAN: Mr. Tucker?

By Mr. Tucker:

Q. Before I ask a question of Mr. Towers, I would like to express appreciation to him for the very lucid presentation he made this morning. What I would like him to deal with for a moment or so is the situation wherein you operate against inflationary pressures. In the past, I think, you have operated mainly by selling the holdings of government bonds in order to decrease the reserves of the Banks of Canada. Of course, the selling of these bonds has the inevitable effect of decreasing the value of bonds thereby raising the yields from them, and thereby raising the cost of money to governments, and it does thereby affect their position when they want, for example, to help in say the housing field. Now, I wonder if you would comment on this: is it not possible in some way to find a method of fighting against inflationary pressures, without at the same time substantially increasing the cost of money to governments? I suggest, Mr. Towers, there should be some way used to fight against inflationary pressures without raising the cost of money to governments substantially, as apparently happens under the present set-up. Now, as I understand it, another way would be to raise the percentage of bank reserves required which would have the same effect as cutting down the amount of their cash reserves. Now, to what extent have you done that in the past? To what extent do you intend to do it in the future? And, do you not think that this is a way of fighting against inflationary pressures which might be much more effective than the sale of government bonds?—A. Of course, the effect which you mentioned of bringing down bond prices and increasing the general structure of interest rates across the country—and incidentally, and this is most important, making it more difficult as well as more expensive to borrow—can arise not only from the sale of government bonds—because in tight times we have not really been net sellers—but through refraining from buying, too. But, turning to your principal question, Mr. Tucker, an increase in the minimum ratio of chartered banks' cash reserves will not necessarily produce any effect of the kind you have in mind on the interest rate structure. If their legal reserves have to be higher, and there is nevertheless a demand for loans, and they are short of cash, they will have to try and raise some cash by selling government securities. Really, what I think your suggestion would amount to is this: that during an inflationary period when there tends to be a greater demand for labour and materials than there is supply, and many people are trying to go ahead with their capital development plans, either in housing or something else, you suggest that governments should be kept free of that form of restraint so that the governmental activities in these capital fields will have priority over others. That cannot be done by a monetary policy. It would have to be done by direct controls, where governments would say to such and such an enterprise, you cannot go ahead with this new factory or development because you are getting in the way of housing, so stop it.

Q. But what I had in mind, Mr. Towers, was this—it seems to me I had in mind exactly what you suggested: When you lower bank cash reserves by selling government bonds, you raise the cost of money to governments and thereby directly discourage them from doing things that they think as a government they should do. Now, I am suggesting there should be a way of fighting against inflation through the banks, without at the same time drastically raising the cost of money to governments. The arrangement that you made with the banks in 1951 to discourage them from expanding their loans was a voluntary arrangement. What I am suggesting is that the actual use of raising the reserve requirements, whenever thought necessary, to discourage inflationary pressures, would be just as effective in fighting against inflation as the method you have used in the past whereby I understand you

have practically entirely limited yourself to selling government bonds and to the voluntary arrangement with the banks. I mention that, Mr. Towers, because I see as I followed your presentation and its effect upon the long-term market yields of our bonds, and as you have said in your statement, that you operated in the market by selling or buying which had an almost immediate response in the long-term yields of government bonds. This was done entirely to fight inflation or to encourage activity, but the effect also has been to substantially increase the cost of governments in the interest rates it must pay for its borrowings. Is it not possible to divorce this to a greater extent than has been done in the past?—A. Only by direct control.

Q. What do you mean by that?—A. Only by the method which I have mentioned earlier on. Instead of all borrowers being discouraged by greater difficulty in borrowing, as well as higher rates, you suggest that governments should be excluded from that discouragement. I do not believe it is possible to do so by any monetary policy. You cannot have two completely different compartments of credit in the country. If it was desired to absolve governments from any constraint with regard to going ahead with certain of their capital plans, it would have to be by means of direct control.

Q. What I am getting at, Mr. Towers, is this: once you have your reserve requirements at the level at which the banks are operating, say 10% then the requirement to which the reserves might be raised from 10 per cent to 10.25 per cent, and this would have just as vast an effect, upon their having to curtail loans very substantially, as the cutting down of the actual reserves. Is that not correct?—A. If that increase in the reserve ratio took place at a time when the demand for loans from the banks was heavy and increasing, it would mean that they would have to sell, and would sell government securities in order to try to meet the requirements of their customers so far as they felt they prudently could do so.

Q. But they might, at the same time, decide not to make as many loans, if it meant the disposal of their government bonds, and perhaps interfering with their liquid position.—A. It is true that if the liquid position in the form of government bonds got down very low, that would take place—but in the situation we have had in Canada for a number of years—they would sell the government bonds.

Q. Do you not think that the Bank of Canada should try to get into a position where it would not be a matter of a voluntary arrangement by the banks, but a position which would result in action by the banks, whether they liked it or not, and whether or not they disposed of the government bonds.—A. It goes much beyond the banking system, because the amount of financing which takes place in the market outside the banks is very, very large. If there is greater difficulty in borrowing in the market—outside the banking system—the amount of such borrowing tends to be less than it would otherwise have been and therefore you have less pressure on scarce materials and supplies.

Q. In order to fight against inflation you borrowed from the Bank of Canada and as a result the cost of money to the government rose from an average of 2.59 in 1947—that is the long-term market yield—to 3.7 in June 1953. In other words, it rose 1.1 per cent.

Now, of course, that meant that our policy to assist people to build homes and so on was drastically cut down, even though it might be government policy to assist them. And then the effect of that policy was this: I would point out that whereas the annual average long-term market yield in 1947 in Canada was 2.59, in the United States it was 2.2. In other words, there was a difference there of less than 4 per cent. Now, the difference between 3.4 per cent in Canada and 2.53 in the United States is a difference of .9 per

cent. In other words, the spread in the cost of money to the Canadian government today is twice as much compared with the United States as it was in 1947.—A. There are two features: One is the spread—and I shall come back later to what you had to say about the increase in the cost to the government. The spread between two typical issues—and I shall pick our threes of 1966 and the American two and one-halves of 1972—has in the last 7 or 8 years been all over the place. Sometimes it has been very small, as little as .3 per cent, and sometimes it has been almost 1 per cent. At the present time it is about three-quarters of 1 per cent. That is somewhat higher than the common spread of one-half. So I agree that the spread is somewhat higher than the nearest guess you can make of normal.

Their bond market went down very rapidly in the first part of the year, then it rose again a little more rapidly than ours. I think that is about all I should say on that.

But turning now to your earlier remarks about the fact that the government in respect of interest rates paid certain penalties the same as everyone else through rising rates: if the effort to minimize inflation was to discourage some marginal borrowers from going ahead, and if that was worth while—and no one can prove it—then the cost of living and the cost of building houses is less than it would otherwise have been. You might—if you had cheaper rates—have a higher cost of living and a higher cost of building houses; I would think you would be worse off.

The CHAIRMAN: Mr. Tucker, would you mind withholding your questions until later in the day in order to give the witness a chance to “bone up” for the answers. Now, Mr. Stewart.

By Mr. Stewart:

Q. Mr. Towers tells us that in 1946 the Canadian people had accumulated extraordinary large holdings of liquid assets and that the situation in Canada contained strong inflationary possibilities. One might call that a fear. And on page 5 he points out certain doubts caused by deflationary influences. Would he care to comment as to which was the stronger influence, the fear or the doubt?—A. Uncertainty, because we did not know the future. The future held out these varying possibilities, and we could not tell which were the strongest or which were the most likely to take place. Under those circumstances you can only do your best to determine where the balance lies, and see what happens.

Q. Would you say that the policy was a hitch-hiking one? Was it an ad hoc policy?—A. I do not know of any policies which are not.

Q. I am merely trying to find out if there was any long-term policy at all in the minds of the people who were running the Bank of Canada.—A. Might I add something to my rather inconclusive remark. As I tried to indicate in my earlier remarks, the inflationary potentials were clear, just as clear as they could be; but what was not clear was the extent to which really strenuous measures would create loss and trouble in various ways without avoiding inflation, so that the policy was based on the view that some inflationary rise was inevitable and that an absolutely all-out struggle against it was doomed to fail and might have other unfortunate consequences; but that the least we could do was to struggle as effectively as possible to make sure that the inflationary price rise here was no greater than was inevitable.

Q. Then you said there was concern with a reasonable stability of interest rates. That had a priority. Does that imply that you were prepared to buy all offerings of government bonds on the market?—A. I should say that it depended upon how large those would have been. If there had been

a tremendous flood, I think the answer would have been "No", but so long as the thing did not become unmanageable the answer for some time was "Yes".

Q. But you were in the market to buy governments for a substantial period of time?—A. Yes.

Q. Which would have the effect of increasing commercial reserves?—A. Actually by very little, because the Bank of Canada itself could not at that time buy very much in the way of long-term securities. The net selling which took place coincided during that time with substantial government surpluses, and those surpluses were invested in bonds.

Q. And that in turn counteracted perhaps any possibility of an inflationary possibility from an increase in bank reserves?—A. In that particular field.

Q. Yes. During these years, however, the consumer price index rose by about one-third?—A. Yes.

Q. We were concentrating on keeping a low interest rate. Was that at the expense of the purchasing power of the dollar?—A. We felt that the other policy at that time, a policy which as a by-product, would have substantially increased rates of interest, would not in fact have prevented the rise in the consumer index which you mention.

Q. In connection with that, you state that this policy would have meant substantially lower prices for government securities?—A. Yes.

Q. What is your concept of "substantial"?—A. I cannot have one. I can only have impressions. You will recall that I said in my remarks that by 1950 we were in a much better position to put into effect a somewhat tighter monetary policy, which we felt would be beneficial but which would not need to go to extremes to achieve certain results. In 1946, my own feeling, for what it may be worth, is that for a tight monetary policy to have been really effective would have required a much lower level of government bond prices than was the case in 1950, because the pressure to sell in 1950 was not nearly as great as it would have been in the postwar years when there was a much vaster number of small holders who wanted to turn their bonds into cash to do certain things in the postwar period.

Q. In 1945 the gross national product of Canada—I am speaking in terms of constant dollars—was \$9,350 million; by 1950 it had risen in terms of constant dollars to \$10,330 million. In 1945 our money supply was \$5,900 million. By 1950 it was \$8,700 million. There is a very substantial increase in the terms of money over the gross national product expressed in terms of constant dollars, which is obviously inflationary. Did not the policy of trying to maintain low interest rates contribute to this inflation?—A. As I said earlier in my remarks, I doubt it.

Q. Why?—A. Because I believe that the external influences on our price structure assuming the maintenance of parity of the Canadian dollar with the United States dollar I believe that those external influences would have stepped our price level up to approximately the point where it is now. I say approximately because it would be quite impossible for me to say whether or not a really tight monetary policy in the postwar years might have lopped off two per cent or three per cent. I would not know, but the differences compared with where we are now would have been, I think, of roughly no greater order of magnitude than that. I think that the external influences were sufficient to have brought us close to where we are now.

Q. You do not think that the very substantial increase in the money supply and the much smaller increase in the gross national product has had a great effect on the inflationary tendencies?—A. I think the best thing I can

do—I have to struggle to remember the figures you have just mentioned—is to think about that and try to put something down which would constitute a coherent reply.

Q. You said, I think, in answer to Mr. Macdonnell, that since Korea the policy had been to try to restrain chartered bank reserves, yet in 1950-1951 we saw the greatest increase in bank reserves in the postwar years amounting to some \$139 million. Could you try to reconcile this with the restraint you mentioned?—A. I said that what we tried to do was to exercise a restraining influence on the increase of bank credit. Now, the increase was very substantial, and that involved necessarily an increase in chartered banks' cash reserves. It became more expensive for them to increase those reserves through sale of government bonds, as bond prices went down. That factor, together with the co-operative arrangement, I believe, meant that the increase in bank credit was somewhat less than it would have been otherwise, but no one can ever tell how much less. Of course, we are concentrating at the moment perhaps too much on the banks and bank loans. This whole situation had a broad effect on the general public market for securities, so that people did not find it as easy to borrow, irrespective of their willingness to pay higher rates. Again, the extent to which that meant that those who would otherwise have borrowed refrained, I cannot tell. It must have been something.

Q. In 1951, when you asked the commercial banks to co-operate with you in restricting credit, there was in the first six months of that year, if I remember rightly your report for that year, a decrease in bank reserves of some \$42 million, which would be logical, but in the second half of that year there was an increase in bank cash of \$124 million.—A. In 1951.

Q. I think you will find that in your annual report. I am giving the figures you have there.—A. Would it be possible for me to come back to that point too?

Mr. STEWART: Yes.

The CHAIRMAN: Mr. Stewart, for this morning you have had it. We will start this afternoon at 3.30. I am going to give Mr. Fleming the first opportunity, and limit him to half an hour, then Mr. Quelch for half an hour, Mr. Tucker for half an hour, and then come back to you again. Mr. Towers will be with us for a few days. There have been several requests by members of the Committee for copies of the Bank Act and the Bank of Canada Act. The Clerk of the Committee will order them and distribute them later today.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Fleming, perhaps you would begin this afternoon. Would you confine yourself to 20 minutes as we were late getting started.

Mr. G. F. Towers, Governor of the Bank of Canada, recalled:

By Mr. Fleming:

Q. Mr. Chairman, I would like to begin with some questions on the subject of the relationship between the Bank of Canada and the operations of the chartered banks. I presume it has a direct bearing on the principal subject of the statement made by Mr. Towers this morning. Will Mr. Towers outline what part, if any, the Bank of Canada has played in the normal business operations of the chartered banks?—A. The main relationship, Mr. Chairman,

is the indirect one, because if the Bank of Canada is undertaking operations designed to increase the reserves of the chartered banks, there is no direct relationship there. We may buy securities from anyone on the market, and produce the effect I have mentioned. When it comes to more direct relationships they are, by and large, limited to occasions when we meet with the general managers either to make a special suggestion in regard to the credit position, as was done at the beginning of 1951 or 1948, or more commonly perhaps, to get together twice a year—on occasions three or four times a year—to speak about the general picture. In the latter case it is a general discussion.

Q. Is there any reason why it would not be proper to ask for disclosure of the financial transactions between the Bank of Canada and the chartered banks?—A. No. We buy or sell securities either through dealers in the market, or on occasions, have direct transactions with banks, but those are the only transactions which we have, and in our purchase or sale, in our securities transactions with banks, those are on exactly the same basis as they would be with any of the other dealers in the market.

Q. What about discount, for accommodation of the chartered banks? Have there been any such transactions?—A. Yes, there have been, but over the years they have been very rare. However, there have been various such transactions recently and, incidentally, we have expressed the view that it is desirable that there should be occasional transactions of that kind in cases where they would serve a useful purpose, because having the machinery there it is undesirable to leave it completely unused year in and year out.

Q. Just to keep it from getting rusty?—A. Yes.

Q. But I take it that those transactions have not been very significant in amount or nature?—A. No, they have not been.

Q. The statement you read to us this morning, Mr. Towers, dealt largely with monetary measures. I would like to ask you more particularly about the extent of the participation of the Bank of Canada in monetary measures in the war and post-war period. Now, just running through your statement, I note that at the bottom of page 9 and at the top of page 10, reference is made to the rate of interest as one of the ways in which the Bank of Canada has participated in measures that could be called monetary. Again, at the top of page 12 reference is made to the Bank of Canada, in February 1948, having suggested to the chartered banks that under conditions then existing it was undesirable for capital expenditures to be financed through expansion of bank credit. At the top of page 15, reference is made also to the fact that at the beginning of 1951 you asked the chartered banks to co-operate in a policy of keeping down bank credit. Further down on page 15, about two-thirds of the way down, in the paragraph beginning "by the spring of 1952", we have the expression in the last line, "leaving normal methods of central bank action to influence the total level of bank credit." Then, of course, on page 18 you made mention of the issuance from time to time, in the more recent periods, of treasury bills. Are there any other ways, apart from those I have reviewed, in which the Bank of Canada has participated in fiscal measures?—A. Monetary measures, perhaps?

Q. Yes?—A. Well, I think of fiscal measures in the sense of government taxation and so on.

Q. That is an unhappy thought. I would not want to bring that into a peaceful discussion like this. Let us call them monetary measures.—A. Yes. Well, off hand, Mr. Chairman, I cannot think of any.

Q. That would be an exhaustive list?—A. Yes, because the foundation of the banking structure, namely the cash reserves, is the main factor in the whole situation.

Q. And it is no secret, and I think it is a fair matter for questioning, that in all of these cases you act in concert with the government. Are any of these measures initiated by the Bank of Canada, apart from being concerted with the government?—A. Well, I do not like to embark on a lengthy answer to a brief question, but I think perhaps at this stage I should say something about this, Mr. Chairman, if you agree.

The CHAIRMAN: Quite.

The WITNESS: The situation is that parliament has placed squarely on the shoulders of the directors and management of the Bank of Canada the responsibility for monetary policy. It would be of no use for us to come before a committee of this kind and say in respect to certain actions which were criticized, we did not like that, but the government wanted us to do it. The proper answer would be; in what Act has parliament said that you should do something in the field of monetary policy in which you do not believe? Therefore, we must and do take full responsibility for everything which we have done. Now, I think myself that the Bank of Canada Act is in this respect a very good Act, and better than most, because it is clear. There is no alibi possible for the central bank.

On the other hand, there is no alibi possible for the government, because if government said: well, we disagreed with what the central bank did, but parliament has placed the responsibility on them, so what could we do? the answer obviously is that the administration of the day, supported by a majority in parliament, can always alter the legislation. In fact, I doubt whether a disagreement would ever necessitate such a thing, because there are various ways and means by which directors and management can be got rid of. I am sure that in the case of a serious disagreement that is what would take place. There is a long history behind this thing in central banking—and I assure you I won't take up much more of the committee's time—but in the days when kings and princes ruled the roost, they had rather a nasty habit of debasing the coinage when they got into a fix, and even later on parliamentary governments sometimes did the same thing, in the modern sense of inflation. Therefore, it is interesting to notice that in all the many countries of the world—I think it is 60 or more which have central banks—they have always been set up not as a department of government but as separate institutions. In many cases, they have altered in form through the years, and with hardly an exception they have been nationalized, but they have been left as separate structures with the idea that then there are certain checks in respect to the possibility of doing that insidious thing which not one person in a million understands, debasing the currency. In some cases, of course, the independence, while intended to be encouraging to the public, is a pure facade. Obviously that is so in a totalitarian state. But even in some other places in recent years there have been governments—we have had them in sister countries of the commonwealth—which felt that they could not bear the thought that even for a day someone should frustrate or delay the policy of the administration of the day. So on top of the facade which, so far as the public is concerned was supposed to convey an idea of check and balance and independence, they would write in a clause saying the policy of the central bank shall be that dictated by the Minister of Finance from time to time. Myself, I think that that is a sort of mongrel arrangement, and the central bank should be either a pure department of government and known to the public as such, or it should have independent responsibility.

Just to make sure that nothing I have said conveys a misunderstanding, I would like to add that no central bank, and certainly not the Bank of Canada has any delusions of grandeur or any thought that it has sovereign power that always lies with the administration which commands a majority in Parliament.

I believe in most modern airplanes there is a bulb in the control panel which is supposed to flash red when there is a fire anywhere in the plane, and after that it has served its purpose. I think the management of the central bank is very much in that position.

By Mr. Fleming:

Q. Well, that is interesting Mr. Towers, but it does not quite deal with my question. I think it is a fair question.—A. I am sorry, Mr. Fleming.

Q. In the review of these various measures that appear in your statement this morning, I take it that none of those in any case were taken without their being concerted with the government.—A. The government, of course, either through the Deputy Minister of Finance, who is a member of the board and of the executive committee, or through quite frequent conversations between the governor and the Minister of Finance, is always aware of what the Bank of Canada is doing. I would be hard put to say, however, not through any reluctance to answer the question, but as a matter of memory, as to what was done in the case of the particular things you mentioned. I would say that the views were formed in our minds as to what it was desirable to do. As I say, the government is always aware of what is going on, but as to prior consultation, I cannot swear that there was any in these particular cases.

Q. For instance, in 1948 and in 1951, when you urged the chartered banks to restrict credit, was that advice given without the government first having been consulted by you?—A. The government would be aware that we were going to have the conversations. They would be aware, at least through the deputy minister.

Q. And having offered no objection, I suppose one could say they were parties to it, at least in the sense that they did not interfere?—A. Yes, because automatically, indeed, they must be parties to everything the central bank does unless they signify to the contrary.

Q. You referred to the quality of the Bank of Canada Act as a statute. May I refer you to the preamble, Mr. Towers? We have had this up before:

Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion:

Is that a fair description of the activities of the Bank of Canada within the realm of possibility? I preface that by saying there has been some question about the proper extent of monetary policy as reflected through the powers and activities of the Bank of Canada. I recall on an earlier occasion, when appearing before a similar committee in 1948, you thought that the terms of the preamble were rather broad and they gave a rather exaggerated impression of the sphere under which the Bank of Canada can operate?—A. Of course, the saving clause in that preamble which brings it perhaps a little nearer to earth is: "so far as may be possible within the scope of monetary action." Otherwise, of course, it expresses the desire to have things good.

Q. Thinking particularly of an answer you gave to Mr. Macdonnell this morning, I take it within the minds of yourself and those associated with you in the management of the Bank of Canada, there is no doubt that through monetary action you can influence the general level of production, trade prices, and employment?—A. Yes, but it is never possible to say exactly how much.

Q. That is just what I was coming to, Mr. Towers; you anticipated me. Well, when you say you could never say exactly how much, is that because it varies from time to time?—A. That is because you never know what the situation would have been if you had not done a certain thing.

Q. It is the difficulty of measuring the effect of what you have done by way of monetary action?—A. Yes.

Q. I derived the impression from the memorandum read this morning, that the policy that was followed in the postwar period, as you outlined it, was designed principally to maintain employment. Is that a fair inference to draw? Was that the guiding policy in the steps taken in the field of monetary action?—A. In the whole period up until very recently I should say that our most positive actions have been directed to avoiding an over-demand for employment, rather than to maintain employment, because employment has been high throughout, except seasonally, until recently.

Q. That was not quite the situation you had in 1947?—A. In deciding not to adopt what I described as a "rigorous policy,"—a really rigorous policy—in the immediate post-war period, one of the considerations was that we did not believe it would work without producing too much damage. One of the damages we feared would result from a rigorous policy was transitional unemployment in the re-deployment which had to take place after the war.

Q. Employment then, did enter very largely into the plans made for the use of monetary action by the government of Canada in that post-war period?—A. It must be in our minds, not only in the post-war period but every day of our lives, because employment, production and the general prosperity of the country are synonymous.

Q. That brings me up to the present time. We have a situation today which at the moment appears to be rather different from what we had, broadly speaking, since the period of immediate adjustment after the war. What is the possible scope of monetary action in the situation we are confronted with now? Without raising any disputes about the amount of unemployment or trying to measure the element in unemployment that is seasonal at the moment, can you give us your assessment of the situation and the possibility of applying monetary action today?—A. Perhaps I could best answer that by referring to our activities between the time the Bank of Canada commenced operations in March of 1935 until the outbreak of the war. In each of those years, the cash reserves of the chartered banks were increased somewhat. Credit was very easy, in the sense of being easy to obtain by anyone who had a case to put up or a bond issue to sell, and rates were relatively low. I assume that that policy was advantageous and produced some results, but I can only assume it. I do not know it, because I do not know what the situation would have been if money had been very expensive and hard to obtain during those years. I suspect that the situation in 1935 to 1939, while none too good, as far as unemployment was concerned, would have been even worse if we had not done what we did do. But monetary action in itself, while it opened the door and made things somewhat better, obviously did not make them perfect.

If you come to a later situation such as we have had recently it would appear that inflationary pressures for the time being, perhaps for some time have abated. While the situation is by no means similar to the situation we had in 1936 to 1939, still you will have observed that the levels of interest rates have been going down, which indicates that it is easier to borrow.

Q. This will be my last question on this turn. Now in the situation that we have at the present time and for the foreseeable future is the Bank of Canada adhering in its policy in the field of monetary action to maintaining interest rates and volume of production on an even basis, or is it thinking

in terms of assisting inflationary forces affecting production and such activities, or is it thinking in terms of checking those forces by some form of monetary action?—A. I believe the forces have been checked. Some development might occur three months from now which would make one change that opinion; but as matters stand, I believe they have been checked; and under those circumstances we are no longer struggling against an inflationary situation, but are taking a slightly different view.

Q. Does that mean that you are trying to maintain money on a fairly even basis now?—A. Well, actually rates in the market have been going down.

Q. I am thinking in terms of your objective at the moment. What would you say to be the function of the Bank of Canada in the situation which you have described, that is, as one in which money rates and economic conditions in general have become fairly stabilized?—A. Yes.

Q. In this situation, what do you conceive to be the proper policy of the Bank of Canada?—A. In this situation, and so long as this particular situation exists, I would say that the Bank of Canada should have a view of the cash reserves which would make it possible for the credit structure to expand to accommodate borrowers of various kinds, if that expansion is needed.

Q. All right. I may come back to this again, Mr. Chairman. Might I ask you to excuse me at this time because I have to return to the House in order to finish a very poor speech which I started yesterday.

The CHAIRMAN: I hoped we could keep you here long enough for that bill to go through but I see that we have not succeeded.

We are running into some difficulties. You were on a very interesting point, Mr. Fleming, and I did not like to interrupt you. I have it in mind to permit you to go on. We will not be able to go all the way around; but the member who is not reached today would be first on Tuesday. Will that be all right, if we give Mr. Fleming a little more time? I would like you to continue.

Mr. FLEMING: It will only take me about five minutes more, Mr. Chairman.

By Mr. Fleming:

Q. Would you be good enough to apply your observations, Mr. Towers, specifically to the agricultural situation in Canada? I realize that the Bank of Canada does not fulfil the function of the chartered banks, but nevertheless you are gearing your policy to economic conditions as you find them, and to whatever extent may be its intention, you are of the opinion that the Bank of Canada, through monetary action can effect economic conditions in the broad descriptions of production, trade, prices, and unemployment as we have them in the preamble to the Bank of Canada Act. Therefore I would like you to comment specifically on where this policy goes with reference to economic conditions as applied to agriculture.—A. The policy of the bank, of course, can only affect the situation—how shall I put it?—it can tend to make money easier and cheaper to borrow, or difficult and more expensive.

Then one has to inquire, who are the potential borrowers. If there are some in agriculture who otherwise would have found it difficult or expensive to get credit and who now find it easier, then that helps agriculture. I do not know whether there are or not. Our policies affect potential borrowers of all kinds whether they are in agriculture, or whether it is a province, or a municipality, or what not.

Q. I realize that you are not concerned immediately with the problem of the individual in trying to obtain bank credit. You are looking at things in a broader way and in terms of economic forces that affect those credits widely. But is there anything more you can tell us as to the position or the

condition of agriculture in Canada in the shaping of your program for the immediate future and in exerting such powers as you have to influence the general level of production, trade, prices and unemployment?—A. Again, with the saving clause: "Within the scope of monetary action". If agriculture is embarrassed by the difficulty of borrowing, that would be one thing. But so far as I know that is not their main problem, is it? I am thinking of the west in particular. The concern there relates to markets, overseas markets, in which Bank of Canada action has no very direct effect.

Mr. TUCKER: And prices?

The WITNESS: And prices, yes.

By Mr. Fleming:

Q. That leads me to ask you about the importance of the Bank of Canada so far as it has any influence on the relationship between the Canadian dollar and other currencies. What are you doing now, or what do you aim to do in that respect? What do you conceive, in other words, to be a desirable relationship under present circumstances, knowing how it affects our trade, both export and import? And what are you doing about obtaining a desirable goal?—A. I would have great difficulty in answering that question.

Q. And I would myself, Mr. Towers.—A. I would have great difficulty because it might be interpreted as expressing a view. In fact, I know it would be interpreted as expressing a view in regard to exchange rates as well, probably, as the whole level of bond prices; and while it is possible to say something after the event, it really is not possible to say anything in advance.

The CHAIRMAN: Mr. Fleming would not want you to do so if you thought that would likely be the effect.

By Mr. Fleming:

Q. No, I would not. But my question was suggested by a remark made this morning in which you indicated that in your view it was not very desirable that Canadian currency should rule at a premium.—A. I did not put it quite that way. I said it was not a situation which would necessarily be a cause of boasting or pride, because it might be good, bad, or indifferent. But I did not express any view in regard to where the rate should be.

Q. It is probably fair to ask you to look back now having regard to the fact that the Canadian dollar has been ruling at a discount in terms of currencies in which we must deal to have been a good thing for Canada that the Canadian dollar been ruling for some time in relation to the United States dollar and other currency?—A. If I can confine my remarks to the past, and with a certain gap, and I might say the past for me should be at least six months ago, I would say that up to that time it had been a good thing. I would not like to express any views about a subsequent period or the future.

The CHAIRMAN: Now, Mr. Quelch.

By Mr. Quelch:

Q. Mr. Chairman, this morning I was asking a number of questions in regard to what monetary step might be taken in regard to helping the exports of agricultural products, or any other primary products. In 1945 this committee had before it the proposal for setting up the International Monetary Fund. This is the first opportunity that we have had to ask any questions in regard to the operation of that fund and to what degree it has been successful in attaining the objectives for which it was set up.

The two main purposes of the fund were to help in promoting the expansion of trade and to eliminate, as far as possible, restrictive practices. At the time the proposal was before the committee we, in this group, opposed it on the

grounds that it recognized the rights of an exporting nation to demand payment in its currency without any obligation whatever in respect to imports in payment. We insisted that as a result there was the danger that importing nations would not be able to obtain the currency with which to pay for those imports; and we based that statement on the fact that the United States in the past had not been a good creditor in that regard.

The witness, Mr. Rasminsky, admitted that on the basis of past experience there was some reason to fear that the United States might not adopt a policy that would make it possible to achieve our objective under the International Monetary Fund. But on the other hand he pointed out that several things were transpiring which led him to believe that the United States was going to change its policy in that regard and be more willing to accept imports in the future than it had been in the past. Now I wonder if Mr. Towers would not agree that one of the main reasons, we have not been able to achieve the objective of the I.M.F. has been the international trade policy of the U.S.A. since that time. —A. Well, it is more popular to give them a poke than anyone else; but I cannot do it with an undivided heart. I think that some of the causes of the persistent imbalance in world accounts in the post-war years were obviously the effects of the war, which were perhaps under-estimated in 1944-45, and particularly the effects of the iron curtain on the trade of many European countries. It is true that the Marshall Plan was of great assistance in overcoming those difficulties, but I believe some of the difficulties were due to the fault of the countries themselves in trying to live beyond their means. And last of all, I think that a more liberal trade policy on the part of the United States would make an enormous difference to the world.

Mr. TUCKER: Hear! hear!

The WITNESS: But it would be unfair to say that they were the sole offenders.

By Mr. Quelch:

Q. Yes, it would be unfair to say that they were the sole offenders. But I think we would all agree, on the other hand, that the United States is one of great leaders in the world today, and they will have to give leadership along the line of removing restrictions on imports which will encourage other nations to adopt the same practice.

In your annual report of the Bank of Canada for the year 1952 on page 11 you state:

More than seven years have now passed since the end of the war and it must be acknowledged that the world is still far from the goals of currency convertibility and non-discrimination; indeed, restrictions on trade and payments are in many cases more rather than less severe than they were some years ago.

And then on the next page you say:

The achievement of international balance and a properly functioning international economic system is no easy task and will require the collaboration of surplus as well as deficit countries. If it is the primary responsibility of the deficit countries so to conduct their affairs that there is available for export a sufficient quantity of goods at competitive prices, so is it the primary responsibility of the surplus countries to allow competition from abroad to take place, and not to prevent but rather to encourage an increased inflow of goods. There is no need to underline the importance in this connection of the policies pursued by the United States

And a little further down on the same page you say:

The difficulties involved in the deficit countries achieving balance through an increase in "hard currency" exports rather than by continuing to rely heavily on import restrictions and discrimination may well appear to them insuperable if United States actions limit severely their chances of earning dollars by competing in the American market. Restrictions in the United States cannot fail to encourage restrictions elsewhere.

On the basis of that I think there is very good ground for saying that the main offenders today are the United States, and that was the thing which we feared so much at the time that Bretton Woods agreement was before us, due to the fact creditor nations had the right to demand payment in their own currency without being bound to accept imports in return. And that the only alternative would be for them to restrict imports from those countries?—A. Well, I know that Bretton Woods did not set up that situation because it was there before.

Q. But it is supposed to take care of it.—A. Oh well, it was supposed to do its utmost to improve the situation and it has been trying. I am inclined to think—and this is one of those things you cannot prove—that if there had not been an association of the nations in Breton Woods and in GATT and in other international organizations we would be much more at sixes and sevens than we now are; and while I would not change a word of the remarks which I made a little over a year ago in that report, I do not think that we should give up hope in this matter. In the long run I am convinced that the United States will reduce their various restrictions, although in the long run, as someone has said, "We shall all be dead."

The CHAIRMAN: Yes.

Mr. QUELCH: How far is "in the long run"?

The CHAIRMAN: It is not six months.

The WITNESS: I think it is fair to say that many more people in the United States today are of this view than would have been the case 25 years ago. To implement this by legislation is sometimes a very slow and difficult matter.

By Mr. Quelch:

Q. I noticed at the time that we were discussing the agreement Mr. Rasminsky placed a good deal of importance on article 7 which provides for increasing the amount of scarce currency, but it only dealt with the scarcity of currency that was scarce within the fund. I understand that it did not take any cognizance of the scarcity of currency outside the fund, and that only when a scarcity of currency occurs within the fund is it proper for a declaration that currency is scarce, be made and that when such a declaration had been made, it allowed importing nations to institute restrictions against imports from the nations whose currency was scarce.—A. It declared an open season.

Q. Yes, an open season. Has it ever been short of American dollars since it was set up?—A. No, it has not. But the people concerned about the scarcity of American dollars have never removed their restrictions, so there was no need to give them the authority to institute them.

Q. Under the fund, those nations had the right to impose restrictions for the first three years?—A. Yes.

Q. And Canada and the United States have agreed that they should be allowed to continue?—A. The Fund consults with those countries. The Fund hears what their story is in regard to the necessity for import restrictions and express views as to whether they should be continued. In some cases, either as a result of representations of the fund, or on the country's own decision, there has in fact resulted an amelioration of the restrictions. The fund works away in that sense on its members.

By Mr. Quelch:

Q. I find it hard to understand why, if there was a shortage of American dollars, they didn't take regular advantage of the fund, and why they didn't obtain American dollars from the fund? It seemed to us at the time that the trouble was that the shortage of dollars was looked upon as a temporary situation. As a matter of fact, the fund only provided assistance for a temporary situation and did not provide for taking care of long-term needs. The thing which might have prevented some nations from taking dollars from the fund was that they could obtain dollars for a specified time but then the rate of interest could be increased yearly until it reached 5 per cent at which time the fund had the right to charge any rate of interest they wanted. Is that not why the nations did not make greater use of the fund? They did not want to find themselves in a position where they took money from the fund and the interest rate was raised every year? Therefore it did not take care of the current situation because they recognized from the history of the past that it would be impossible for them to repay their advance from the fund until Creditor Nations changed their policies.—A. The fund of course could not take care of a chronic situation. In the post-war years it made certain advances to some European countries in the early stages of reconstruction, and then along came the Marshall Plan and it was a decision of the fund that those who were recipients under the Marshall Plan should not make use of the resources of the fund. I think that was probably a right decision, because the Marshall Plan was designed to take care of those countries within the limits deemed necessary. It is not long since that plan came to an end and we now have a new situation. In that new situation I think the fund would look after the requirements of any member country who had a temporary—an apparently temporary—need for support, but if a country coming to the fund said, we are short of dollars and this is temporary, and the fund thought that the policies of that country were such that to give them access to the fund's resources would simply be putting money down the drain, they would say "no".

Q. The fund would have to consider whether or not in their opinion that country was going to be able to break through the barriers of the U.S.A. in order to get them to accept their imports?—A. I think perhaps the U.S.A., while it must be thought of frequently, must not be thought of constantly.

Q. You mean, we should include Canada, too?—A. Some of the countries which found themselves short of dollars were countries who wanted to buy more than they could sell. However, it is not only to the United States that they can sell. For example, there is the Latin-American market. The U.K. for example, has just as good access to the Latin-American market as the United States has, and they should perhaps try harder to sell there. The U.K. is not the only country which felt a shortage of dollars. The countries who experienced a chronic shortage have done so because they did not have enough to offer in return that anyone else wanted. Germany has found it possible to re-establish her trade in Latin-America on a very big scale. I have heard no complaint from Germany about a shortage of dollars—none whatever.

Q. On the other hand, the U.S.A. has had a favourable balance of trade, and to that extent, some other nations have had an unfavourable balance?—A. They have not objected to that because it has been a gift.

Q. A gift on their part?—A. A gift on the part of the Americans.

Q. Don't they expect to fully recover a lot of it?—A. No, much of the assistance has been a gift.

Q. Under the Marshall Plan, you mean?—A. Yes, the Marshall Plan, military aid and point four.

Q. I quite agree the U.S.A. has been very generous in many ways, but they apparently preferred to be generous in making gifts and do not appear to be anxious to allow countries to trade them their surpluses. There is a strong prejudice against accepting aid when you have surpluses you can trade. I do not think it is right to put a nation into the position where they have to accept charity. They can pay their way with their surpluses instead of accepting aid.—A. I could not agree with you more. I think in the situation in the post-war years, there was a great deal to be said for the aid and that countries could accept that aid without feeling too badly about it, but as one goes along that becomes no longer true. Then I would quite agree that the arrangements on trade should be such as to give people a fair chance if they can take it.

Q. I want to come to the situation which we seem to have at the present time—the question of surpluses, especially of agricultural products accumulating in the United States and Canada. You are no doubt familiar with the proposals made by the Canadian Federation of Agriculture to the international federation of agricultural producers who submitted the proposals to the Food and Agricultural Organization. They considered the problem of making surplus goods available to the nations who need them, and a committee of six experts drafted a proposal known as the international commodity clearing house. One of the main proposals contained in that was that the commodity clearing house would take surpluses from the nations who had them, and sell them to nations needing them for inconvertible currency, and place that to the credit of the surplus nation. The agricultural organizations seem to be very strongly in favour of that proposal, and Canada along with the U.S.A. and some other nations voted against it, so the responsibility for dealing with our agricultural surpluses now rests with Canada and we cannot look to that organization to take care of them for us. What I would like to know is, what is the objection, and there seems to be a very strong objection in certain places, to our accepting sterling in payment for surpluses of agricultural produce that Canada cannot dispose of through normal channels of trade, accepting that sterling, keeping it until such time as we can use it to buy goods from Britain or any nation within the sterling area. To the extent we do not wish to use it that way, we can invest it in the sterling area to help expand the production of the type of goods we would be willing to take. For instance, Mr. Howe said we could take more in the form of tools, then we could accept the tools in payment. What is the strong objection to that? There must be a strong objection, otherwise we would be doing it now?

Another point that interests me, is that the U.S.A. is going to do that very thing and it seems to be causing a great deal of concern to some people. I am personally very glad that they are going to do this, and since we are inclined to follow the courses of action taken by the United States, perhaps we will follow their example in this regard.—A. Sometimes they return the compliment. However, I think the consideration of the type of policy you mention is easier if one does not mix it up with accepting sterling. Rather say, why should not Canada lend money to country A or country B if that will make them buy more of our surpluses than they otherwise would?

Q. It is not really the same thing, is it?—A. Yes, it would be the same thing. There is a slight difference on the question of the exchange risk, but that is neither here nor there for the purposes of our discussion, so the question is, why not lend the money? Canada did lend almost beyond its capacity in the early post-war years. The question would be, should we do more of it? But, of course, as we found out in 1947 very vividly, if you are selling on credit but buying for cash, you can get into an awful fix, so that there is not, I think, in many circles any great enthusiasm for selling really large amounts on long-term credit. Incidentally, there is no great enthusiasm on the part of potential buyers to accept such loans.

Q. That would only be a short-term solution—it could not be considered a long-term solution. If we invested money in the sterling area, we have to be prepared at a later date to accept the proceeds from that investment in goods. We have to increase our imports and in addition accept imports to the amount of interest or the dividends or repayment of that investment?—A. Of course, England waxed prosperous on that basis. It was something that transpired gradually over many years. If these changes are sudden, they are very awkward. If they take place as a result of gradual economic growth and change then they may be very profitable.

Q. A policy of that kind would help the sterling area, would it not? A similar policy has been in operation between the United States and Canada. We have had an unfavourable balance and the only reason we can balance our account is the fact that the U.S.A. made investments here. If it was not for that fact, we would have a deficit?—A. Yes, we would have a deficit with the United States but not necessarily an overall deficit.

Q. I am talking about the U.S.A.—A. But we have been always able to use our trade surplus with other countries as an offset against our deficit with the U.S.A.

Q. And in balancing your trade with the U.S.A. in that manner, you are saying to Europe, we want you to pay our deficits to the U.S. Why should it be the responsibility of Europe to make up our deficit?—A. If each country had to balance its trade exactly with each other country, the result would be chaos. It has to be as far as possible on a world-wide basis, and the fact that it has tended to be pushed into compartments through bilateral and regional deals, since the war, has been one of the big problems of international trade.

Q. But isn't the important point that you should achieve as far as possible a balance between the dollar and the sterling areas?—A. No, I think the sterling area should have an overall balance with the rest of the world. They have had it once or twice in recent years and a surplus.

The CHAIRMAN: Mr. Quelch, would you like to take up another 30 minutes?

Mr. QUELCH: No, I just wanted to finish this point, and then go on to the domestic situation. I have gone about as far as I want to go on this point. I gather from what Mr. Towers says, he is not opposed to investing our surpluses in other countries?

The WITNESS: I did not say that. I said it would be possible if parliament so wishes.

By Mr. Quelch:

Q. You mean, so far as you are concerned, you do not assume to speak on behalf of the government? You might let me clarify that statement. In so far as that is concerned, you would not be opposed to the investment of surpluses in other countries to the extent those surpluses cannot be disposed of through the normal channels of trade?—A. I think that is too difficult a question for me to answer, Mr. Quelch. I think, whether or not Canada tried to deal with the problem by selling for credit on a very extended basis, must depend on parliament and the government, but, of course, if that decision were taken one would have to inquire how we would pay for our imports.

Q. Yes, but if you cannot dispose of the goods through the normal channels of trade you are not losing anything? Then the only alternative left would be to reduce your production?—A. That question of normal channels of trade is a very vexed one. It does arise, of course, in connection with U.S. policy in disposing of surpluses. I think it is in their law that they do not want to upset the normal channels of trade, but sometimes it is very difficult to see how, under the provisions of that Act, 50 million bushels of wheat could be given to someone and not have any effect on the normal channels of trade.

Q. Perhaps you can clarify the policy of the U.S.A. at the present time in regard to the disposal of certain surpluses for sterling. I understand the policy is that they will dispose of some of these surpluses through the sterling area, accept sterling and invest that sterling in defence projects?—A. I am not sure that their arrangement with the U.K. is of that kind. I note that in certain other cases they said they would accept local currency and use it for the requirements of their troops. Actually, to some extent, that is beating the devil around the stump because otherwise, they would use dollars for the requirements of their troops. As for the arrangement with the U.K., I do not know.

The CHAIRMAN: As I understand it, they are using it for the current needs of the troops and the U.K. are very unhappy about it.

By Mr. Quelch:

Q. I noticed they used the term "invested in defence projects"?—A. No. If an airfield was an investment, yes, but not for factories or things of that kind.

Q. There is quite a large sum involved, is there not?—A. I do not know what the total is, so far, of that kind of thing; not terribly large, with the possible exception of one country.

Q. Now, I am not asking you if you agree with that, but if it should become the policy of the government to use some of our surpluses, surpluses we feel we cannot dispose of internally or through the regular channels of trade, if it becomes their policy to use that for investment purposes in foreign countries, it will require, will it not, that we maintain the effective demand in our country high enough so that we can use the goods shipped back?—A. By definition, they have no goods to ship, or else they would not need the special assistance.

Q. Sometimes they have goods but we won't accept them?—A. We will accept them if they are what our people want. There are no barriers here.

Q. We usually get them from the U.S.A.?—A. Only if our people feel they are cheaper or better.

Q. Can't a publicity campaign be conducted? I read, just the other day, of how fishermen from B.C. went over to England and accepted British goods in return for fish. If greater publicity were given to that action, couldn't similar action be taken by similar producers in our country? It is sort of a barter deal, conducted through monetary means?—A. No one should take anything but a happy view of any initiative of that kind which produces results, and, of course, as you recall, after the war—I have forgotten the name of the thing—there was a group who did try to encourage imports from the U.K., or to steer U.K. exporters where they might go.

The CHAIRMAN: I believe it was the Duncan group?

The WITNESS: Yes; I think that was a useful job of work, but over the years, and thinking in terms of volume, it requires initiative on the part of the exporter and greater initiative is being shown.

By Mr. Quelch:

Q. Apparently the Canadian people like British goods. That is, apparently the lack of initiative may be on the part of the exporters, or on the part of the government in not giving greater publicity to the type of goods that could be imported, and failure to encourage people in Canada to buy British goods. It would definitely be of advantage to Canada, if we could buy less in the U.S.A. and more in Britain, to help achieve a balance of trade and help achieve balance with the sterling area?—A. Yes, and the U.K. Board of Trade have been working hard on that ever since the end of the war, and I have

noticed their efforts produced some results, but if the U.K. exporter can sell goods more readily elsewhere at higher prices, exhortation by the government will help a little but not a great deal.

Q. Has Canada reciprocated with similar action to try and encourage people to buy more?—A. I believe the Department of Trade and Commerce has made many efforts along those lines, but I could not say exactly what they consisted of, or what the results have been.

Q. That is all, Mr. Chairman.

The CHAIRMAN: Mr. Tucker?

Mr. TUCKER: I am ready to go on, Mr. Chairman, but I was just wondering if someone else might want to ask questions.

The CHAIRMAN: We have 25 minutes free time now, and that should give you a good opportunity to ask questions. Will that be enough time?

Mr. PHILPOTT: There is one point arising out of Mr. Quelch's questions about which I should like to comment. There is nothing whatever to stop the Social Credit government of British Columbia from getting busy and doing what the hon. Jimmy Sinclair did for the fishermen of British Columbia, resulting in a lot of orders coming over, and I feel that we have overlooked buying a lot of English goods. Alberta better get busy and do the same.

Mr. TUCKER: I am prepared to proceed, Mr. Chairman, unless someone else wishes to ask questions now.

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Towers a question. He stated that he had not heard that Germany was short of dollars in buying from Latin-American countries. Germany would have dollars because of the U.S.A. paying their troops over there, would it not?—A. The very heavy expenditures of the U.S.A. and others were, of course, a great help to Germany in the post-war recovery, but in more recent years she has been standing much more on her own feet and adding to her resources of gold and dollars.

Q. But would'nt Germany have to go through the regular channels to get these dollars, to convert her own marks into American dollars?—A. She has been earning dollars, and a substantial amount of dollars, in her general trade with the rest of the world.

Q. By exporting her machinery?—A. Yes, all over the place.

Mr. TUCKER: Just following up what Mr. Quelch dealt with for a minute, Mr. Towers, is it not true that at the time of Bretton Woods it was thought that the trouble Great Britain was going to have in making that thing operate satisfactorily was the tremendous amount of sterling she owed to India and China?

The WITNESS: Yes, and various others.

Mr. TUCKER: And that has been a millstone around her neck ever since; in fact, to get back on a proper trading basis with the rest of the world, these are unrequited exports, as they call them.—A. Well, it was a very heavy drag and a very serious problem for some time and certainly it is not a problem which has been removed; but it has actually been reduced in an important degree partly by reason of those balances which were in existence at the end of the war being substantially reduced in a great many cases, and partly by reason of the fact that due to the rise in prices, particularly in Sterling terms—Sterling having been depreciated—that the purchasing power of those balances is a great deal less than it was in 1945.

Q. Is it not true that because of their difficulty over this money which they owed to Egypt and to India, which caused them so much difficulty, that they have no desire to incur further debts by taking large quantities of goods

from us on similar terms, because they will owe for them and ultimately have to pay for them at some time?—A. That is quite right. They feel that their external debts are quite large enough as matters stand.

Q. Can you think of any way whereby you could force Great Britain to take goods from us for sterling which she does not want?—A. No.

Q. And is it not true that up to now she has taken the attitude that she does not want to go into debt for these surpluses, and that we want to get rid of them for sterling?—A. She does not want to go further into debt, period.

Q. Can you think of any way to trade these surpluses with Great Britain which is not in the nature of a Sterling transaction?—A. No.

The CHAIRMAN: Now, Mr. Quelch.

By Mr. Quelch:

Q. It would not be a debt if we accepted Sterling and invested it in that country?—A. It spreads out over a longer period, and I would raise the question as to these investments. If it is the Canadian government which invests in factories in the United Kingdom, I do not think that they would like that at all.

Q. I agree that large holdings of blocked Sterling occur in this situation, but the situation existed prior to the war and it is not a new situation. I could quote from the evidence of the 1945 committee in which Mr. Rasminsky referred to the period before the war when there was difficulty in maintaining a balance between Sterling and the United States.—A. That difficulty existed to a much lesser extent prior to the war, but the blocked funds to which Mr. Tucker referred, are the ones which arose from the war due to the United Kingdom expenditures in various countries. At the end of the war, they amounted to a very formidable sum, I think about £3 billion.

Q. That largely arose from the fact of Britain absorbing a greater share for the responsibility of the war than she should have.—A. That would give rise to an appraisal as to how much India was concerned in it and how much Egypt was concerned, and so on. I cannot give you an answer.

Mr. HUNTER: That is a study for philosophy, not economics.

The CHAIRMAN: Now, Mr. Macdonnell.

By Mr. Macdonnell:

Q. I was informed by a man whose opinion I value, that actually if you look at the situation in the United Kingdom you will find that they have in fact a series of restrictions on the entry of goods, and that in fact there are dollars available which can be got for any sales that we actually do make, and that the problem of taking Sterling therefor really hardly exists. In other words, by the restriction of imports they have produced a kind of convertibility. It is not a convertibility, but it seems to be able to do the job and it is in a sense a virtual convertibility purely on the financial side and made possible by reason of the drastic restrictions imposed on the entry of goods.—A. That is true. The restrictions plus an improvement in the situation with respect to export capacity. Both of those things.

By Mr. Tucker:

Q. In other words, they have taken the attitude that they will let into their country only what it wishes to pay for or is ready to go into debt for; and when we suggest we are in agreement with them to guarantee to them a lot of surpluses for their sterling, that would not fit into their import policy?—A. That is quite right. I think their attitude is that they do not want to get things that they cannot pay for.

Q. But what I do not understand is why certain people think that we can ship excess goods to Great Britain for sterling, or debt or for anything else, if she is unwilling to take those goods. I do not understand how they expect to get those goods into Great Britain if Great Britain does not want them, and she has said that she does not want them.—A. I think, perhaps, Mr. Chairman, that this arises in part from the words said in past years. They used to say, "If you will only accept payment in sterling, you can sell anything at all." But what they did not go on to say was what they really meant. They would not have made payment in sterling in any quantity unless we had been prepared to impose import restrictions against dollar goods to make room in our own markets for their goods which they otherwise could not sell. That was the core of the whole thing. But that is not their attitude now, at least in seeking fresh places for that type of assistance.

Q. I would like to follow up the matter which I stated this morning, and to have Mr. Towers deal with the use of the power given to him, or to be given to him, in permitting him to increase the reserve requirements of the banks. In other words, up to now, as I understand it, the Bank of Canada has operated on the extent to which banks could extend their credit or encourage them to reduce their credit by operations in the way of selling or buying government bonds. Now then, of course as was pointed out this morning, if you wanted to fight against inflationary pressures you would encourage the banks to reduce their loans and investments, and to do that you would sell government bonds and reduce their cash reserves. And by doing that, by selling government bonds, you tended to depreciate them in price and that meant the yield on long-term government bonds was increased so that when the government wanted to borrow, they had to pay a higher rate of interest.

What I wish Mr. Towers to deal with is the desirability under the circumstances, where it was not desired to increase the cost of borrowing by government, of using the other powers that you are going to be given and to require the banks to carry a higher reserve against their obligations. What is the effect? At some given time you could say to the banks, "We are going to require you to raise your reserves against your liabilities in Canada." What effect would that have on the situation as compared with the operations which you have been doing before, that is, actually selling government bonds, and compare those two things.

The CHAIRMAN: Yes.

The WITNESS: There is a risk I believe when a central bank has power to raise the minimum cash reserve requirements of the chartered banks. There is a risk that the central bank will use that power as a crutch with which to obviate or perhaps postpone the broader action in the field of monetary policy which would really be appropriate to deal with an inflationary situation.

There is a risk, I say, that the central bank might do that, and for a time achieve some moderating affect on bank credit without influencing the level of interest rates. But if the inflationary pressure was at all serious, the central bank would soon find that it had only postponed action in the other field and, as I say, it had used this as a crutch. That is an argument against the central bank having such powers. But I believe that if it used those powers to supplement its other actions, it could deal more effectively with a very sudden inflationary process, and that the power can be very useful, provided it is carefully used and seldom used, and never just simply as a crutch.

Q. What I wanted you to explain, if you can is this: I know you can explain it, but can you explain it so that I can understand it. Why do you say that it would only be temporary? Why would it not operate just as effectively upon the reserves if you apply your requirements? Can you say it would not work just as effectively?—A. Of course, Mr. Tucker, much would depend on

the position of the banks at the time these inflationary pressures arose and at the time this action to raise the reserves occurred. If the banks had very little in the form of government bonds or any others that they could realize upon, that would be one thing. But if, on the other hand, they were still large holders, they would be selling government bonds to try and build up to the increased reserve.

It is true that in the process you do get a general tightening of credit and an effect on interest rates, but it means probably that for a time, and in response to a very sudden situation, that the whole market, the whole structure does not have to be so quickly and drastically affected. It would be more, I would say, of an orderly transition than anything else. It would not be a solution.

Q. Well, assuming that you are given the power to increase your reserve requirements up to 25 per cent or more, assuming that, and assuming that you decide to operate in this way, instead of selling government bonds, and assuming that the banks know that if necessary you can accept all their bonds and ultimately force them to curtail their loans, could you not use that fact, and at the same time warn the banks that if they sold their bonds, in order to try to fight the result, you would go further in raising the reserve requirements. And if you had that power, would that not be just as effective in curtailing the inflation of bank money as what you do at the present time, and it would not at the same time raise the cost of money to the government?—A. Oh, but I think it would. In the case of monetary policy, normally it should be used rather as a delicate weapon and not as an axe. If you went at it very hard, then the banks would be in a position of having to say to the borrowers: You cannot have anything more, and perhaps you must have something less. If the banks were in that position, then the borrowers, being turned down by the banks, would certainly try to raise any money they possibly could from outside the banking system. They would offer rates which would induce others to sell government bonds. The whole interest structure outside the banks would go up. You would end up in a similar situation to the actual one you mentioned, but I should think that the effect upon the interest rate structure would be very material.

Q. What I am getting at is this: Why could you not operate just as delicately in the one field as in the other? I mean: I am suggesting you would have those powers and the banks would know that you had them and that you could invoke them; so why could you not use the one just as delicately as the other?—A. I would hope that if the occasion arose to use the power in regard to increasing reserves, it would be a delicate operation and at the same time it should not go too far.

Q. I agree with you but what I was wondering was to what extent you could use this power. You will be able to use this power to fight what has been happening. In your fight against inflationary pressures you drove the cost of money up to our government from a little over $2\frac{1}{2}$ per cent on the average in 1947 to nearly $3\frac{3}{4}$ per cent in July of 1953. In other words what I am suggesting is: that if you had had this power to raise the requirements of the banks' reserves, and to raise their required reserves, you could have fought against inflation just as effectively, without drastically raising the cost of money to the government, could you not?—A. No. I think the cost of money to the government would have risen just as much as it has.

Mr. HUNTER: How could you have scarce money and still have a low interest rate?

By Mr. Tucker:

Q. Could you explain how that would be done?—A. An increase in the banks' legal cash reserves under the powers you are talking about would not

of course have stopped borrowers from desiring to increase their loans from the banks. The increase which has taken place might conceivably have been somewhat less, but it would nevertheless have been substantial.

With the demand for higher cash reserves, the banks would have been faced with the necessity, under those circumstances, of selling more government bonds than they actually did. And if we stepped in and bought them all, without "retreating" in price, that would be one thing. But in that case we would have been neglecting the moderating influences which were required in all the non-banking markets and the security markets and so on.

Q. Could you not have pointed out to the banks that you were taking steps to have them moderate their loans, and that you did not approve of their selling their bonds in order to go on expanding their loans?—A. You could not make that as a categorical statement because some expansion of loans undoubtedly had to take place.

Q. It took place anyway under your present system.—A. Yes, and it would have had to take place under any other.

Q. And only in so far as the fight against inflation is carried out; but if you used this other weapon, it would not necessarily have driven up the cost of money to the government. Can you explain why it would have driven up the cost of money to the government?—A. Because that arose not only in respect, naturally, of banks selling government bonds, but everyone else as well; and if people, as a result of greater pressure on the banks, wanted to increase loans and found it to be more difficult, then the tendency would have been to stimulate more selling from other sources.

Q. You are suggesting this from your operations in fighting against inflation?—A. We did not sell bonds really at any time in any quantity except in that temporary period of the influx of capital in the autumn of 1950. But what we did do was this: We were reluctant to add to our holdings.

Q. Well then, as I understand it, the only place where you really operated to any great extent in fighting against inflationary pressure was when you called in the banks and urged them to go easy on their extension of loans?—A. We were reluctant to add to our holdings of government bonds, and that had a very marked bearing, I would think.

Q. That reluctance resulted in what?—A. It resulted in sellers trying to find others who would buy them.

Q. But that would not tend to curtail bank loans?—A. It tended to have an effect on the interest rate.

Mr. HUNTER: Very little effect.

Mr. TUCKER: But it did not have an anti-inflationary effect. I am speaking of the things you did in order to fight against inflation.

The WITNESS: Yes; well, when it becomes more difficult and more expensive to borrow that does have an anti-inflationary effect.

The CHAIRMAN: We have got to give up this room. You may continue your questioning next sitting, Mr. Tucker.

Mr. TUCKER: Mr. Chairman, we shall not be meeting until Tuesday and I wonder if Mr. Towers could prepare a few figures which might be helpful. One of the sets of tables which I think would be helpful would have to do with a matter which was brought up today, the question of the effect on agriculture of these various methods. In other words, to what extent agricultural prices have been affected as compared with other prices by the rise of our money and as compared with other things. As I understand it, agricultural prices tend to drop faster than other prices because of various factors which are well known. I think it would be interesting to see to what extent, over

the period of the last ten months, agricultural prices have responded as compared with other prices, and in addition to have a comparison of the value of our money as compared with United States money, as was done in a table which was prepared for us in 1939.

The CHAIRMAN: By the Bank of Canada?

Mr. TUCKER: Yes, by the Bank of Canada or the Finance department, I am not sure which.

Hon. Mr. ABBOTT: Have you any statistics on it?

The WITNESS: No.

The CHAIRMAN: I should think it would be a task for a magician.

Mr. TUCKER: No. Tables were given in the proceedings to which I referred.

The WITNESS: In any event, I do not remember them but I shall look them up and see.

Mr. TUCKER: Thank you.

Hon. Mr. ABBOTT: What were they in?

Mr. TUCKER: They were in the report of the Banking and Commerce Committee proceedings.

The CHAIRMAN: What page?

Mr. TUCKER: I am sorry. I did not write down the page number, but I think it was at the start of the proceedings in 1939.

Hon. Mr. ABBOTT: What were we studying in 1939, do you remember?

Mr. TUCKER: It was the proceedings of the Banking and Commerce Committee.

The WITNESS: It was the report of the Bank of Canada.

Hon. Mr. ABBOTT: That is right, the report of the Bank of Canada.

Mr. TUCKER: And there was an index of price levels in Canada and other countries, and there was a considerable table going back about 15 years, and it brought it right up to 1938. I think we should have it.

The CHAIRMAN: That will be done.

Mr. Low: Before we adjourn, Mr. Chairman, a question was raised by Mr. Philpott. I just happen to have here the Fisheries Council of Canada Bulletin for January 15, 1954. It quotes from the hon. member's favourite newspaper, the Vancouver Sun, for January 5, and it states:

Welsh Tinplate for Canning B.C. Salmon Vancouver Sun, Jan. 5 states: 'London, Jan. 5. (C.P.)—The first contract has been signed under an Anglo-Canadian "link purchase" scheme designed to boost British purchases of British Columbia salmon, it was learned today. A spokesman for British Columbia House in London said the contract was for delivery to Vancouver of Welsh tinplate, which will be used for canning the 1954 salmon pack on the British Columbia coast. The tinplate contract amounts to about \$2 million, it was learned in Vancouver today. The B.C. industry made representations to the company from which it purchases its cans, to switch to the Welsh tinplate. The "link purchase" plan, as outlined here, represents something of an act of faith by Canadian fishing companies. Under the scheme, 14 firms have agreed to make a definite effort to switch from United States to British sources for purchases of certain equipment such as winches, engines, nets and lines. In return, the companies hope—and it is only a hope—that Britain will respond by buying B.C. salmon.'

The CHAIRMAN: The Minister of Fisheries made a statement on the floor of the House, and I think that covered the matter. Mr. Philpott was quite correct in his assertion. Your remarks are a matter of interpretation only, Mr. Low.

Mr. Low: No, not at all, Mr. Chairman.

Mr. TUCKER: There was another table, Mr. Chairman. I wonder if Mr. Towers could give us a statement showing the ratio of cash reserves to deposit liabilities over the past 10 years in Canada, the United States and the United Kingdom?

Mr. ADAMSON: I wonder if Mr. Towers would be able to discuss with the committee, or enlighten the committee, on the functions of a money market in Canada? It is mentioned in the last paragraph of his prepared statement. First of all, I would like to have it defined, and what you think it would accomplish for Canada.

The WITNESS: It is a difficult assignment, Mr. Adamson, but I will do my best.

The CHAIRMAN: The committee is now adjourned until Tuesday morning next.

Canada • Banking and Commerce
Standing Committee on, 1954.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

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Decennial Revision of the Bank Act

UNIVERSITY OF TORONTO

TUESDAY, MARCH 23, 1954

WITNESS:

Mr. Graham Towers, C.M.G., Governor of the Bank of Canada

ORDER OF REFERENCE

FRIDAY, March 19, 1954.

Ordered—That the name of Mr. Johnson (*Kindersley*) be substituted for that of Mr. Thatcher on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, March 23, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Hunter, Low, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Monteith, Philpott, Pouliot, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver.

In attendance: The Hon. D. C. Abbott, Q.C., Minister of Finance; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. Graham Towers, C. M. G. Governor of the Bank of Canada; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of the Bankers' Association and Vice-President and General Manager, of the Royal Bank of Canada; Mr. C. B. Neapole, Assistant General Manager of the Royal Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal and Mr. J. Fiott, Assistant to the General Manager of the Bank of Nova Scotia.

The Chairman brought to the attention of the Committee that certain typographical errors in the Appendices to the Minutes of Proceedings and Evidence, No. 15, Tuesday, March 16, 1954, were so extensive as to make it advisable to order a reprint of the said Evidence and Appendices.

Ordered—That the Evidence of March 16th and the Appendices thereto be reprinted as an *appendix* to this day's evidence. (*See Appendix "A"*).

Consequent to a request made by Mr. Tucker at the last meeting of the Committee, Mr. Towers laid on the table the following documents which are to be found as *Appendix "B"* to this day's Evidence:

Exhibit No. 14: Certain Canadian Price Indexes 1938 to 1953, inclusive, including Wholesale and Farm Products Indexes;

Exhibit No. 15: General Wholesale Price Indexes in Canada and Certain Countries (1938 - 1953, inclusive);

Exhibit No. 16: The Latest Available Consumer and Wholesale Price Indexes in Certain Countries as a Percentage of 1938;

Exhibit No. 17: The Value of the U.S. Dollar in Canada 1938 - 1953, inclusive;

Exhibit No. 18: Ratios of Cash Reserves to Deposit Liabilities in Canada, United States and the United Kingdom 1944 - 1953, inclusive.

The Committee then resumed the examination of Mr. Towers on his statement on the *Post-War Monetary Policy*.

Mr. Towers made a detailed statement in reply to questions asked by Mr. Stewart (*Winnipeg North*), at a previous meeting, in respect of:

- (a) The increase in gross national product, measured in constant dollars, from 1945 to 1950;
- (b) The increase in general public holdings of currency and bank deposits from the end of 1945 to the end of 1950, and
- (c) The increase in the chartered banks' cash reserves between June 30 and December 31, 1951.

(See this day's Evidence)

Mr. Towers also tabled a statement entitled "Money Market" in response to a request by Mr. Adamson that he define the term "money market" and say something about the functions of that market. The said statement was ordered to be printed as an appendix to this day's evidence, and is to be found as Appendix "C".

At 1.05 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presiding.

Members present: Messrs. Ashbourne, Balcolm, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Hunter, Low, Johnston (*Bow River*), Macdonnell, Macnaughton, Johnson (*Kindersley*), Mitchell (*London*), Monteith, Philpott, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: Same as at the Morning Sitting.

The Committee resumed the examination of Mr. Towers on his statement on the *Post-War Monetary Policy*.

At 4.05 o'clock p.m., the division bells having rung, the Committee adjourned and proceeded to the House.

At 4.25 o'clock p.m., a quorum having again assembled, the Committee continued with the examination of Mr. Towers.

Members present: Messrs. Ashbourne, Benidickson, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Huffman, Hunter, Low, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, MacEachern, Macnaughton, Mitchell (*London*), Monteith, Philpott, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: Same as above.

At 5.35 o'clock p.m., the examination of Mr. Towers still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, March 25, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

TUESDAY, March 23, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. Unfortunately we have found a considerable number of printing errors in the tables that were filed at the first meeting of this committee. It would be difficult to correct these errors by referring to them during the course of another meeting. The suggestion has been made that we reprint all those exhibits and attach them as Appendix "A" to today's proceedings.

Mr. FLEMING: Can you give us a brief idea of the nature of the mistakes? Are they minor things?

The CHAIRMAN: They are mostly transpositions of figures but they are important. They leave the wrong impression. Thus it appears desirable to have them reprinted.

Mr. MACDONNELL: Can we assume that these were discovered by our diligent chairman?

The CHAIRMAN: No, they were discovered by the Inspector General.

Today, our witness will be Mr. Towers, who, in response to Mr. Tucker's request, has tabled: (1) Certain Canadian Price Indexes 1938-1953 inclusive, including wholesale and farm products indexes. (2) General wholesale price indexes in Canada and certain countries, (1938-1953, inclusive). (3) The latest available consumer and wholesale price indexes in certain countries as a percentage of 1938. (4) The Value of the U.S. dollar in Canada 1938-1953, inclusive. (5) Ratios of cash reserves to deposit liabilities in Canada, United States and the United Kingdom 1944-1953, inclusive.

(See Appendix "B", Exhibits 14 to 18, inclusive)

Mr. G. F. Towers, Governor of the Bank of Canada, recalled:

Mr. PHILPOTT: Mr. Chairman, I have a small point. When we closed on Thursday, Mr. Low made reference to a statement I had made as to who put through the fish deal for Welsh tinplate.

Mr. CHAIRMAN: What page, Mr. Philpott?

Mr. PHILPOTT: That appears on page 731 of the proceedings on last Thursday.

Mr. PHILPOTT:

The Chairman: The Minister of Fisheries made a statement on the floor of the House, and I think that covered the matter. Mr. Philpott was quite correct in his assertion. Your remarks are a matter of interpretation. Your remarks are a matter of interpretation only, Mr. Low.

Mr. Low: No, not at all, Mr. Chairman.

Referring now to page 1906 of *Hansard* for February 9, 1954, the Honourable Mr. James Sinclair, Minister of Fisheries, made a full statement on the present negotiations which led up to the sale of Canadian canned salmon to the United Kingdom, and explained that the negotiations were between the Right Hon.

R. A. Butler, Chancellor of the Exchequer, the Right Hon. Mr. Howe and the Hon. Mr. Abbott, and spoke of the delegations to Britain last December which consisted of Mr. MacMillan, chairman of the board of B.C. Packers, Mr. John Buchanan, president of B.C. Packers, Mr. Roger Hager, president of the Canadian Fishing Company and himself, (that is the Honourable James Sinclair), who went to London.

The CHAIRMAN: The order for questioning this morning will be as follows: Mr. Tucker, Mr. Stewart (Winnipeg North), Mr. Low, Mr. Macdonnell and Mr. Macnaughton.

By Mr. Tucker:

Q. Mr. Towers, I wish to ask you some questions based upon the indexes you filed this morning. I would like to draw your attention to what has happened to the index of the price of farm products as compared to the general index. In 1946, according to the table you filed, the ratio of the index of farm products to the general index was 128. That has dropped to the point where in 1953 it is shown as being 109.—A. 1952?

Q. 1953.—A. No, 1952, because 1953 is left out.

Q. Yes, 1952. This represents a drop in a period of 6 years of 19 points. Now if one looks at the value of the U.S. dollar in Canada during the same period, in 1946 the value of the U.S. dollar in Canada was 105.75 and in 1952 it had gone down to 97.89, a drop of nearly 8 points. Now, I take it there is a relationship there?—A. Yes, in some cases not a direct relationship, but undoubtedly the level at which the U.S. dollar sells in Canada has a direct or indirect influence on the price level.

Q. It has a very big influence in the case of wheat where under the international wheat agreement the price is set in terms of U.S. dollar?—A. Yes.

Q. And, in terms of the U.S. dollar, it has a very, very adverse effect upon Canadian agriculture, quite obviously proportionately?—A. Well, it has a bearing on all price levels in Canada so it does mean that in terms of Canadian dollars certain exporters tend to get less, if their prices do not increase commensurately in Canadian dollars. It also means, of course, that the things which people buy tend to be somewhat cheaper in price.

Q. The difficulty is, Mr. Towers, that as a result of this monetary action the purchasing power of a person engaged in industry has been steadily rising over the last six years, and the purchasing power of those engaged in Canadian agriculture has been steadily dropping?—A. I don't think one can relate the change in exchange rates entirely to monetary action. One very important factor has been a desire on the part of others, mainly Americans, to make very substantial direct investments in Canada in oil and iron ore, to mention just two of the outstanding things, and there are many others, as well. Their buying of Canadian dollars in order to make these investments has had a very strong bearing on the exchange rate.

Q. But I take it by monetary action you could have offset that, although you were content to let it happen because it cushioned the effect of the rise in prices? In other words, by letting it develop in that way, you prevented our prices rising as fast as they otherwise would have? I mean, our prices generally?—A. I think if the question arises as to whether or not government should revert in essence to a fixed rate or a rate decided directly by government, the minister is the one who should deal with that. As matters stand, as you know, while the exchange fund operates in the market and tries to iron out too much of a change in any one way, to act as a cushion on either side, the rate is left to the free play of market forces. Now, monetary policy can have a certain indirect effect on the rate, but much more direct effects come from the inward movement, or outward movement of capital. An inward movement has been a very important factor in the last few years.

Q. I notice that one of the reasons for capital coming into Canada from the United States has been apparently the fact that bonds bore a lower rate of interest there than in Canada; this encouraged the provinces and municipalities to borrow in the United States, so that the actual increase in provincial bonds payable wholly or optionally abroad in 1953, as compared to 1952, represents a rise of \$107 million.—A. That has been a contributing factor, yes.

Q. That brings up the question I raised before. For example, on long-term bonds, the average rate payable in the United States being so much lower as compared with Canada, and there being such a spread—I realize all these things are tied together, Mr. Towes. That is one of the reasons I asked about the spread in the interest rates between yields on long-term Canada bonds as compared with similar United States bonds. I see, for example, that in February, 1954 the long-term market yield on United States bonds was 2.53 per cent and in Canada it was 3.43 per cent, a difference of .9 per cent—nearly 1 per cent difference?—A. Yes. Actually, at the present time the difference on two bonds which are roughly comparable is about three-quarters of 1 per cent. The spread has been narrowing and incidentally it is the spread on the longer term bonds which is more important than on the short-term bonds in relation to borrowing of the character you mentioned a moment ago.

Q. In other words, since February, that is within the last month, there has been a narrowing of the spread of .2 per cent?—A. Well, about .17 or perhaps .20 per cent.

Q. I hope, Mr. Towers, that you will deal with the justification for the spread in the cost of money to Canada as compared to USA in the light of our monetary and fiscal position. I think this is a matter which, as far as I am concerned, I would like to see dealt with as a reasoned and considered presentation; the justification for that spread. As I see it, as a result of this spread in interest rates our municipalities and provinces are borrowing heavily in the United States under terms which require them in some cases to pay in United States money, which I suggest is not a good thing. It is also having the effect of decreasing steadily the purchasing power of the farmer and the people engaged in agriculture and primary industries generally, and at the same time it is increasing the purchasing power of people engaged in industry which is, I submit, introducing an imbalance in our economic setup? I suggest this is due largely to the fact that by virtue of monetary policy money earns far more in Canada than in the United States and as a result capital tends to migrate here faster than we need it. I suggest this raises a very fundamental problem as to the handling of the whole monetary situation, when our government has to pay roughly three-quarter per cent on long-term borrowings more than the U.S. government. There should be some justification for that.—A. I find considerable difficulty in dealing with the thing in a way which requires reference to the events of today, and still more to the events of tomorrow, but I could make some general remarks. The first one is, of course, that when a country is a very large debtor living alongside a very large creditor, with vast capital resources, there does tend to be a differential between the interest rates in those two countries. A differential of one-half of 1 per cent between our longer term government bonds and U.S. government bonds has very often existed. Canada, in 1953, and I expect again in 1954, will run a very substantial deficit on current account. That is being filled by an inward movement of capital, of which the most important part is the capital for direct investment. I think it is natural and proper that the gap should be filled in this way, because the high level of capital investment here necessitates the importation of an unusually high amount of machinery and equipment from the United States. The direct investment, so to speak, is financing the requirements for imports to which the investment gives rise. Over and above that there has arisen, Mr. Tucker, a

fairly substantial amount of net borrowing by provinces and municipalities and others, particularly in the last half of 1953. As I recall it, there was very little in the first half of 1953. In the last half of 1953, the American bond market has gone up very fast indeed. Our bond market has gone up, and our interest rates have gone down, but the narrowing of the spread between the two markets, which was rather high in the middle of last year, has not, until recently perhaps, been sufficient to render borrowings in the United States unattractive. Relatively, they are less attractive now than they were a few months ago. I think that is about all I could say, Mr. Tucker.

Q. Well, frankly, I am not satisfied with the consideration that the primary producer is receiving under this setup. It may be very good for people who wish to develop the mining industry, and so on, to have money flooding in from the United States, but with our control over the Bank of Canada and our power to furnish the capital for this development by monetary and banks action within our own country without putting ourselves under pledge to a foreign country, realizing of course we have to use our own resources, in any event of men and material—A. But our resources in 1953 were inadequate for the high level of development which was going on.

Q. Isn't that apparently due to the fact you had permitted our dollar to buy so much more in the United States than formerly, that people were inclined to buy consumer goods in the United States which they otherwise would not have bought, and that threw the thing out of balance more than it would have otherwise?—A. There may have been a fringe effect of that kind, but even at a higher rate I would have expected we would have had an overall deficit because of the very high level of capital development here.

Q. But if you consider one of the reasons why our governments, municipal and provincial, would be inclined to borrow more in the United States than in Canada is because when they brought the money back here it would result in a loss. This would not be a reason when our money is at a premium—the sole reason would be a matter of getting it at lower rate, is that not the case?—A. Yes.

Q. And the borrowings payable wholly or optionally abroad in provincial bonds, I see, in 1953, were \$160 million, and in municipal bonds was \$55 million, making a total of provincial or municipal borrowing of \$215 million payable wholly or optionally abroad? These figures appear on page 7 of the Bank of Canada report. Now, I suggest that the result of that movement has been to accentuate the situation whereby the primary producers are sustaining a tremendous drop in their purchasing power. In other words, I suggest that drop is not only an indirect result but a direct result Mr. Towers? When the price of wheat under the first international wheat agreement was set at \$1.80 U.S. per bushel when our money was at a discount of roughly 10 per cent. When we brought that \$1.80 back into Canada we got \$1.98 for it, but now when we bring the same money for a bushel of wheat back into Canada we get less than \$1.80. Therefore, without any change in the agreement whatever, by virtue of monetary action, the farmers on wheat alone have lost approximately 20 cents a bushel?—A. Oh, Mr. Tucker, I could not say that was by virtue of monetary action. It may be that in recent times the differential in the spread between the two markets has been a contributing factor, but what difference there would have been in the exchange rate if it had not been a contributing factor is quite impossible to say. I do not know whether the difference would have been 1 per cent or 2 per cent; much would depend on other movements of capital,—but to suggest that monetary action is responsible for the whole difference between 110 and 97, I am sure is going too far.

Q. I suggest to you, Mr. Towers, that by monetary action and by taking action to keep the value of our dollars compared with U.S. dollars from

increasing, you could have prevented that from developing?—A. It is true that by embarking on a definite inflationary policy one can depreciate the currency—there is no doubt about it.

Q. Should it not be the purpose of monetary action to assist the primary producers, an important element in our population, keeping the economic position more or less in a state of balance with other producers? When you find the purchasing power of the people engaged in industry rising steadily, and that of people engaged in primary industry steadily declining, is not monetary action of some sort indicated?—A. It is very difficult to embark on monetary action of a definite inflationary type and, so to speak, turn the tap off and on at will, and depending on the exact level of the exchange rate; that will not work.

Q. But over a period of 6 years, Mr. Towers, you have permitted our money as compared to U.S. money to actually drop a matter of about 7 points. This represents a drop of about a point a year?—A. 6 years?

Q. Yes, six years.—A. Starting from what date?

Q. Starting from 1949. It is 103·08 in 1949; it is 110·5 in 1943. In 1953 it is 98·34—that is practically 10·9 points.—A. In 1950?

Q. Yes. It is 98·34 now, so it has dropped almost 10 points during the 3 or 4 Years?—A. Risen?

Q. Yes, the value of our money has risen by almost 10 points in a matter of three years.—A. Yes, that is right. You recall that the rate was allowed to go free in the autumn of 1950.

Q. Yes, and during the same period, again to recapitulate, since 1950 the index of farm products has gone down by 2 points. Now, it is apparently steadily dropping because in the period of 1946 to 1953, it has dropped 19 points, and has been steadily dropping during that period. Now, I suggest that the time has come when consideration should be given to that whole situation and we should not encourage the influx of capital borrowed by governments outside of Canada. The effect of our money being at a premium in stimulating buying in the United States is stimulating the adverse balance which you say we have to make up by borrowings abroad. I suggest that this thing should be looked at very carefully because it is certainly having a very adverse effect upon the primary producers of this country, and I think that when you say that the spread of .75 per cent in the cost of governmental borrowing is justified between us and the United States—A. Oh, I did not say that, Mr. Tucker. I carefully refrained from saying that. I think all I can say on this point is that I have listened most attentively to your remarks, and I daresay others at this table have too, but I could not express any views in regard to what it would be desirable to see happen in the future.

Q. What I cannot understand, Mr. Towers, is why, if the spread between the cost of money to our government and the cost of money to the United States government is .7 per cent, that the difference in the cost of money to the United Kingdom in February 1954, as compared with Canada should be only .19 per cent. The difference between us and the United States is more than three times greater than the difference between us and the U.K. Surely, the U.K. is in at least as difficult a position, from the standpoint of owing money, and so on, as we are. How can it be justified that the United Kingdom can borrow money on long term bonds at less than .2 per cent over the cost to our government, when our government has to pay .7 per cent more than the U.S. government?—A. There is no relationship between the American and English markets. Capital does not move between them except for odd amounts on short-term, but there is definitely a relationship between Canadian and American markets. I am sure the committee will realize that Canada could not effectively, even if she so desired, suddenly try to make a move which would bring our long-term interest rates down to the U.S. government

interest rate without setting in motion very substantial outward capital movements, that is, out of Canada. Now, it is true that while a substantial outward capital movement would have an effect on the exchange rate in the direction desired by you, it would also have, I believe, most upsetting effects through the country as a whole if carried too far.

Q. Oh yes.—A. In other words, there is rather a delicate balance between the two countries and if it is the case that the balance swung a bit too far in one direction in the autumn of last year, and we now swing a bit in the other, that is one thing, but really violent moves are inadvisable.

Q. I am not suggesting violent moves, Mr. Towers, but I am suggesting that because we are a weaker country economically in regard to our power to produce in competition with the U.S., and so on, it would be a very wise state of affairs for our money to be at a discount, compared with their money to the extent of something approaching 10 per cent as it used to be. I suggest that now that our money is at a premium, it has put our exporters at a disadvantage, not only the primary producers, but manufacturers. It is encouraging people to buy United States goods when they should buy goods in Canada. In general, it is having an adverse effect on our whole economy and I do suggest this is a movement that should have been halted before it went to the extent of 11 or 12 points in the last 6 or 7 years.—A. Mr. Tucker, the views which you expressed are not new to me, because I remember very well the discussion in the House and the agitation in 1932 and 1933 for depreciation of the Canadian dollar to the level where sterling was then. I am speaking from memory, but we will say the discount on the Canadian dollar versus the U.S. dollar was then moving around rapidly and we will call it 12 per cent. It was felt by the people who were very hard hit on wheat prices at the time that 25 per cent discount would be much better. But as I said before I can only listen attentively to the views expressed in that field without making any comment concerning the future.

Q. I am not suggesting there should be any violent fluctuation, but I am suggesting this situation has had a very adverse effect on our whole mining industry, on the base metal industry and a very deleterious effect on the primary industries of the country. I cannot understand who has benefited by it. It has stimulated purchases in the U.S., but it has had a deleterious effect on the Canadian producers generally. What I wish you would deal with, Mr. Towers, is why we do it if it has this bad effect? Why don't we work against it, and try to keep our money at a discount of 8 or 9 per cent with the U.S. money as it has been in the past? What advantage are we deriving from having it at a premium?—A. As to advantage, of course, the consumer does receive an advantage—I hesitate to mention his name—but he does. Now, as to the other point which you make, I think when you speak in terms of discount of 8 or 10 per cent you may be thinking of the government actively intervening to try to establish a certain fixed rate. If that is the case, then it should be the Minister of Finance who would express a view on it.

Q. I am not suggesting that. I am suggesting that by virtue of the monetary policy you had instead of having an easy money policy as formerly you tightened up in order to offset inflation. I suggest you tightened faster than was wise under the circumstances, with all deference, and it has had this effect upon our economy. In other words, there is no doubt there has been a policy of fighting against inflationary forces, and I suggest you fought just a little bit too strongly in the monetary field?—A. Mr. Tucker, I would be the last person to express a view on that. That must be a matter for other people's judgment.

The CHAIRMAN: Mr. Tucker, perhaps we could now give Mr. Stewart an opportunity to question Mr. Towers?

Mr. TUCKER: Of course.

The CHAIRMAN: Mr. Stewart?

Mr. ADAMSON: Mr. Chairman, I asked Mr. Towers a question.

The CHAIRMAN: Yes, we will come to it a little later.

The WITNESS: Mr. Stewart's questions, of course, deal with the other side of the picture, as to the poor fist we made in fighting against inflation, Mr. Tucker.

Replying to Mr. Stewart's questions:

1. Last Thursday Mr. Stewart referred to the increase which occurred in gross national product, measured in constant dollars, from 1945 to 1950, and in general public holdings of currency and bank deposits from the end of 1945 to the end of 1950. He asked whether the proportionately larger increase in the latter did not contribute to the rise in the Canadian price level over that period. Although Mr. Stewart did not mention the percentage figures involved in these increases, they work out to 11 per cent for G.N.P. (in constant dollars) and 48 per cent for currency and bank deposits.

Before answering this question I would like to say a few words about the basis of the statistical comparison which I think may be a little misleading. I say that for the following reasons:—

(1) The gross national product compares the year 1945, when war production was very large, and the year 1950, when that type of production was much less important. The structure of the economy is so different in war than in peace that I think some qualification is necessary when such a comparison is made. I think the fact that this comparison is a bit misleading can be illustrated by the record in the United States where G.N.P., in constant dollars, did not exceed the 1945 level until 1950, despite the fact that there was very little in the way of idle resources during this period. In Canada G.N.P., in constant dollars, declined from 1945 to 1946 and although it then began to rise it did not exceed the 1945 level until 1948.

(2) At the end of 1945 the total figure for currency and bank deposits in the hands of the general public did not yet reflect the full impact of the financing of the war. The government had a substantial deficit in the first half of 1946, and the chartered banks' total Canadian loans and non-government security holdings did not exceed the end of 1945 level until after the middle of the year. I think, therefore, that June 30, 1946, is a more appropriate date from which to measure post-war changes in currency and bank deposits in the hands of the public. The increase from this date to the end of 1950 was 31 per cent.

(3) Within the total of currency and bank deposits the largest percentage increase occurred in the inactive notice deposits which were up about 37 per cent in this period while currency and active bank deposits are estimated to have increased about 26 per cent.

(4) The choice of the date, December 31, 1950, means that the comparison is affected by the relatively large increase in the bank deposits caused by the great inflow of capital in the latter part of 1950. Most of this increase occurred in the deposits of non-residents. In relation to the currency and active bank deposits of residents only, I would estimate the increase from June 30, 1946, to December 31, 1950, was 21 per cent.

For purposes of comparison I might mention that the physical volume of Canadian G.N.P. increased by 14 per cent from 1946 to 1950. Between the middle of 1946 and the end of 1950 the U.S. wholesale price index rose by 53 per cent, the U.S. consumer price index rose by 34 per cent, and the indexes of the commodities which we import and export increased by 50 per cent and 40 per cent, respectively.

As I said in my earlier evidence, I doubt very much whether the increase in the Canadian money supply contributed in any important degree to the increase in Canadian price level over this period. That price level, I believe, was largely determined by the upswing in external prices. Some monetary expansion was necessary in Canada because of the effect of external prices as well as the growth in the physical volume of production. A significantly smaller expansion than what in fact did occur would have required the rigorous type of policy which I described in my statement on post-war monetary policy and would not, I believe, have produced any really important difference in the rise which took place in the Canadian price level.

2. Mr. Stewart's second question concerned the \$124 million increase in the chartered banks' reserves between June 30 and December 31, 1951.

You will recall that in February 1951 the chartered banks agreed with the suggestion of the Bank of Canada that further increase in the aggregate of their Canadian loans and provincial, municipal and corporate security holdings should be avoided. While the banks were bringing the increase in loans to a halt, their cash reserve position was kept fairly tight. As Mr. Stewart mentioned, there was a reduction of \$42 million in cash reserves in the first half of 1951.

The upward trend in chartered bank loans had been stopped by the beginning of the second half of 1951; in the last six months of that year there was a reduction of \$51 million in total Canadian loans and non-government securities and, if seasonal factors are allowed for, the decline was considerably greater. Under these conditions the same degree of tightness of cash reserves was not required in the second half of the year and the reserve position was allowed to ease somewhat in the third quarter. There was a substantial increase in the final quarter of the year.

The cash reserve situation in the second half of 1951 was complicated by a reduction of \$154 million in "Other" deposits at the Bank of Canada, a reduction which, except to the extent that it was offset by other factors, increased the cash reserves of the chartered banks by an equal amount. There were deposits of foreign clients which had been built up during the latter part of 1949, 1950 and the first half of 1951 as the general dollar reserve position of overseas improved. In the latter part of 1951 these reserves were being heavily used as the countries concerned ran into balance-of-payments difficulties.

The effect of the reduction in "Other" deposits in the chartered banks' cash reserves in the last half of 1951 was offset only to the extent of relatively small increases in active note circulation and government of Canada deposits. There was a very small increase in the government of Canada security holdings of the bank and chartered banks' cash reserves rose \$124 million.

I should point out that for various market reasons our problems of offsetting a sudden and substantial increase in the chartered banks' cash reserves which occurs in this form and which would require a substantial volume of selling by the central bank is a greater one than that which arises from a situation where we need only prevent an increase in our security holdings in order to avoid an increase in cash reserves. In the latter part of 1951 offsetting action would have required very large net sales of securities in a market in which prices were falling, owing mainly to non-resident selling.

I might add also that this period, the last half of 1951, was one in which the U.S. dollar in Canada was falling from a premium of, say 6.94 per cent in June to practically a zero premium in January of 1952. During that period also, the exchange fund account was buying U.S. dollars because the figures show that the official reserves of gold and U.S. dollars rose nearly \$100 million in the six months' period.

By Mr. Stewart (Winnipeg North):

Q. The first part of Mr. Towers' statement proves that if you choose the year basis carefully you can prove almost anything, but I am almost as much attached to my basis year, as he is to his. However, I accept his answer about 1945 being a war year with regard to production. I will come back to that later. The other day Mr. Towers told us that by and large the policy of the bank in 1946 was to follow an ad hoc policy but with a primary interest in keeping interest rates low, is that right?—A. As I said in the initial statement, we felt that a very strenuous policy which would have had as a by-product a substantial rise in interest rates was not the appropriate one.

Q. And to keep interest rates low you had to buy government's on the market? If there were offerings on the part of individuals you would step in and buy?—A. Yes, or the government would use surplus funds to buy.

Q. And that would imply there would be an increase in the commercial banks, cash reserves in the bank?—A. Not if the government was the buyer; only if the Bank of Canada was the buyer.

Q. Which was the most substantial buyer?—A. The government was the most substantial buyer, and sometimes a very substantial seller.

Q. But during these years there was an increase in the cash reserves from 1946 to 1950?—A. Yes.

Q. And would you agree that dangling an increase in the chartered banks' deposits before the banks is an invitation to expand credits?—A. I don't quite follow that question.

Q. If you increase the basis for the expansion of credit through an increase in bank reserves in the central bank, do you think the banks would accept that increase as a basis for an expansion of credit?—A. Yes, the main expansion of credit in the years you mentioned came (particularly before 1949), not so much through an increase in the cash reserves of the banks but by reason of the fact that they started with rather high cash reserves a high cash ratio, and ran that ratio down somewhat during the years. Now, it would be perfectly correct to say that if the central bank had decided to pursue a really rigorous policy, we would have sold government securities in, say, 1946 to reduce the chartered banks' cash reserves, but for the reason I mentioned earlier we felt drastic action of that kind was not justified.

Q. Here I do not want to be rude, but is not increasing the reserves of the chartered banks tantamount to dangling a bottle of whiskey before an alcoholic?—A. Mr. Stewart, I think it is all a question of the timing. Perhaps you believe that at the commencement of the time you mention the cash reserves of the banks should have been reduced—that is a matter of opinion—but there would be other occasions when, I am sure, you would feel that the growth of the country warranted their being increased to enable the banks to service their customers.

Q. Do you remember the Curtis report, volume No. 2? I wish to read from page 169: "At the end of the war, it became clear that total spending would exceed total available supplies of goods and services even if the government took back in taxes as much as it spent." In view of that knowledge was this action not equivalent to increasing inflation?—A. For the reason I mentioned in my first statement I believe not; or, if so, by some very small

amount which I could not specify because I believe that the influence of external prices was bound to raise our price level in Canada very materially no matter what the central bank did unless one could assume a premium on the Canadian dollar versus the U.S. dollar of 10, 20 or 25 per cent, which I cannot assume.

Q. Let us have a look at the prices, and these I take from the Bank of Canada statement of February, 1953 which on page 33 states that the Canadian wholesale price index for 1947, the total index, was 163 and by 1950 it had risen to 211, an increase of about 30 per cent. In the United States for the same period the index had risen from 184 to 197. In view of these figures, did the American wholesale prices have such an effect on our prices here?—A. I have not been able to follow the various figures, I am sorry. I have been trying to look at the summary and follow what you were saying and I have fallen between two stools.

Q. I have the February 1953 copy of the report of the Bank of Canada and I am asking you why the increase in Canada from 1947 to 1950, was so much more than in the United States?—A. You recall that price controls here were a great deal more effective than in the United States?

Q. That is true.—A. Also that they were removed somewhat more slowly so that we faced a situation in 1946 and 1947 when one could be perfectly certain that in a free market we would catch up with the United States which we did, and then for a while, we went even a bit beyond them. This was related in part, incidentally, to a movement back to a 10 per cent discount in September 1949. But when the smoke has all cleared away and we get where we are now, it is true to say, as I said last Thursday, that the increase from the beginning of the war to the present time in Canada is slightly less than in the U.S.

Q. Yes. Let us take the matter of the 10 per cent discount which existed in 1946 and which was removed when our dollar was brought back to parity. The effect of that was to encourage imports from the United States?—A. Other things being equal, yes.

Q. And the result of that was to create what is known as a "dollar crisis"?—A. The extent to which that movement in the exchange rate increased imports over what they otherwise would have been, is something I could not assign a figure to. My own view is that even without the change in the exchange rate we would have been in a dollar crisis anyway because it was too great to have been caused only by the difference in the exchange rate.

It will also be remembered that at that time we did not have any over-all deficit in our balance of payments. We were paying our way, but we were selling a great deal on credit and we were paying for everything we bought in cash.

Q. But increasing the valuation of our dollar to parity with the United States surely meant that we were going to buy more American goods?—A. Our price level at the time was held down by price control. If it were to follow the price level of the United States, it was clear, judging by the indices of wholesale prices, that we were going to have a much sharper increase in prices here than in the United States because we started lower; that is a view which is not based on hindsight. I recall that in the Bank of Canada's annual report at that time I went as far as I could in making that prediction.

I presume that this is perhaps a matter for the minister to discuss because it is related to government policy at the time; but I assume that it was thought that there would be a substantial increase in prices and the cost of living in any event and it was considered desirable to ameliorate that increase, so far as it was possible to do so. The cost of living, as you may recall, was a very pregnant subject at that time.

Q. I remember very well. But the net result of it was to have Canada finish up in 1948-49 with an export surplus of about \$500 million.—A. In what year?

Q. 1948. An export surplus under certain conditions is conceivably inflationary, and a result of this policy in itself was inflation.—A. Well, the result of moving the exchange rate from a discount of 10 per cent to parity was anti-inflationary. The necessity for import restrictions had some higher cost implications, although not of a broad inflationary character. I would say that the problem arose from the help which we were trying to give overseas countries, and not from the exchange rate.

Q. But under the conditions which existed this export surplus was generally inflationary and it was the result of an attempt to balance our trading accounts.—A. I do not think I can follow you, because I think we are switching from one thing to another. But if you ask me: It is suggested that the move to parity was—you did not suggest it was inflationary?

Q. No. At that moment it was anti-inflationary, but in it had the net result or the end result of being inflationary.—A. It is suggested that at a later date we would somehow have had an export surplus?

Q. I am not making any suggestions. I am only trying to find out what the situation was. I am saying that in the attempt to control prices in Canada our dollar was raised to parity with the Americans?—A. Yes.

Q. And that involved other consequences, one of which eventually was to impose controls in an attempt to curtail or to curb American imports which meant ultimately an increase in the price of goods which Canadians had to buy because of higher costs.—A. Again I suggest that, having got into difficulties, we had to take a certain form of action that was related mainly not to the exchange rate but to the matter of trying to assist certain other countries. In order to make it possible for us to do so, our imports were kept below the figure at which they otherwise would have been.

Q. Let me turn to the volume of investment in Canada during these years. Would you say that it added to the inflationary picture?—A. When we try to do too much at any given time, yes, it does temporarily add to the inflationary pressure. Of course we can never reach an ideal; we are either a little below it or a little above it.

Q. In 1948 according to the Curtis report at page 169, it says:

But the combination of a high rate of spending on capital investment and maintenance of a high rate of spending on current consumption made some inflation inevitable.

Would you agree with that?—A. I would say that if we had under-employment, or unemployment in those years—by the same token, that would have meant that capital development, housing, and everything else was much less than was actually attempted—there would have been some effect on the Canadian price level—some downward effect. But I believe that it would have been very small. I think that our price level would mainly have been determined by the United States.

Q. During those years we had a high level of employment and a high level of consumption, and on top of that, you piled on 20 per cent of gross national product in investment.—A. I cannot add anything more to my original statement because otherwise I would be getting into a defensive position and suggesting everything was perfect. I really have said everything that I know on the subject in my initial statement.

Q. In 1944, in the statement of the Bank of Canada it says:

Higher interest rates would only become intelligible if, after war shortages are over, consumers expenditure and capital development were to proceed at a rate which would over-strain our production capacity.

Did it not appear that our capacity was overstrained and that it might be advisable to forget about the low interest rates?—A. There is a further phrase in that statement if I can find it, which I would like to mention. Here it is:

But I see no prospect of such a situation arising in a form which would call for a policy of raising interest rates.

Mr. MACDONNELL: What are you reading from, Mr. Towers?

The WITNESS: I am reading from the same statement which Mr. Stewart mentioned, but another sentence. It is the report of the Bank of Canada dated February 10, 1944.

By Mr. Stewart (Winnipeg North):

Q. You still figure that in 1948 we would not need to raise the interest rates?—A. There was some increase in interest rates in that year but it did not go to the extent of becoming a rigorous policy which I mentioned last Thursday. I offered a variety of reasons then why we did not feel that recourse to such a policy was desirable. It is a matter of opinion, of course.

Q. To revert to the statement you made in answer to my question today about the gross national product and the money supply: You said there has been an increase in the gross national product of some 14 per cent and an increase in the money supply of 21 per cent. Those were your words, were they not?—A. Yes.

Q. Was that increase in the money supply not an important factor in the inflation which existed in our country?—A. If any increase in money supply had been prevented, we would have had undoubtedly less of attempted capital development. But the difference in the price level would have been very small in my opinion.

Q. The effect of inflation during those years while you maintained a low interest, nevertheless was to cut the value of the Canadian dollar by over 30 per cent and the effect of that policy was to some extent to wreck the savings which people had put by, and it was to some extent to wreck the value of insurance policies and annuities. It was cheaper for the Canadian people to have low interest rates, but do you not think that the retention of the purchasing power of the dollar would have worked less hardship?—A. If an increase in interest rates would have made a significant difference in the price level, then I would have been the first to recommend it. But for the reasons which I set out almost at too great length last Thursday, I believe that had a really rigorous policy been attempted with a very substantial increase in interest rates and the tightening of money which would have gone along with it, it would have been, in a sense, doomed to failure because an increase in prices would have taken place anyway unless we could have a 10, 15 or 25 per cent premium over the American dollar.

Q. During those years the government was undertaking very stringent fiscal measures to combat inflation. Yet, what the government was doing and what the Bank of Canada was doing— —A. However, if I am wrong in thinking, that the external influences on our price level would have resulted in a level not very different from what we have today, then everything else which I say is wrong. But if I am right, then all that we are talking about is a fractional difference in the price level.

Q. Which may be a matter of opinion.

The CHAIRMAN: That is what he said.

By Mr. Stewart (Winnipeg North):

Q. In 1950 it was obvious that the dollar again was falling in value. Why then did the Bank of Canada wait until February to go to the chartered banks to get their cooperation?—A. First of all, the problem of that tremendous influx of capital had to be tackled because that really put us out of control of the money market. That problem, however, ceased to be trouble as soon as the exchange rate was freed in October 1950. Now, shortly after that we raised the discount rate as a form of flying a signal and we tried to do various other things as well.

With the benefit of hindsight, it might be that we should have gone to the banks in December or January rather than at the beginning of February. I do not know, but it was not until January that we realized how fast those loans were going up.

Q. But there were some in the House of Commons in 1950 who feared still further inflationary pressures as a result?—A. We feared them too and we were doing what we could by way of normal, indirect central bank action to work against it. But it was not until the beginning of February that we felt that we could supplement that normal course of action by direct agreement with the banks.

Q. In your statement for 1951 it says:

The Bank of Canada had for some time been exercising its influence to restrict the cash reserves of the banking system so as to discourage monetary expansion.

It seems that an odd influence was being exercised because the bank reserves were increasing. Does that imply that we have a major weakness in our banking system?—A. No. I do not think that should be implied. One of the great difficulties which the system encountered in the immediate post-war period was an extraordinary high degree of liquidity built up from the war. Under those circumstances, really strenuous and effective bank action would have run into difficulty because the results would have been extremely drastic. But as I mentioned last Thursday, came to the end of 1950 with a degree of liquidity which, although still high, was a great deal less than it had been, and it was more possible to try to operate to restrain expansion without serious consequences than would have been the case in 1946. But the high degree of liquidity was still a problem even at the end of 1950.

Q. But during those two years the bank reserves were increasing. Is it possible that open market operations in themselves are inadequate, and that you have to say to the banks: We do not want you to advance more money. Is the open market in itself sufficient to control the flow of currency and credit in Canada?—A. I think that in the ordinary course of events it will be. For the future there is also the proposal to give the Bank of Canada power to increase the ratio of reserves, this would be intended as a supplement to open market action in a situation where an inflationary flurry very quickly arose such as the one based upon events in Korea.

Q. It has not been adequate in the past, however you hope it will be adequate in the future?—A. If it has not been adequate in the past, it has been due to the result of the war on the whole financial structure. If we had another world war and were considering what to do at the end of that war, someone might come up with a different story.

Q. Can you tell us how control of bank reserves could be improved?—A. No, I cannot.

Q. Do you think that by increasing the amount of reserves the chartered banks have with the Bank of Canada you might achieve control?—A. I would think within moderate limits it would be a useful and temporary supplement. But I do not think it is a cure-all in itself.

Q. You feel that as a supplement we need the co-operation of the banks and then control would be effective. But they would have to cooperate with you?—A. We have always had the cooperation of the banks in any of the various proposals which have been made to them since the beginning, as in 1951, and in 1948. I believe the banks have felt that if what we suggested was reasonable and in the public interest, they would give us their full cooperation. But if we approached them with a suggestion which they thought was unreasonable and not in the public interest we should not expect them to cooperate.

Mr. CANNON: Is it not a fact that if the rigorous policy which you decided not to adopt, and that Mr. Stewart seems to indicate that he thinks you should have adopted, if that had been adopted, would it not have had the effect of lessening the investment capital after the war and of lessening employment and increasing unemployment, and would also have had the effect of keeping wages down. Would that not have happened?—

The WITNESS: I assume that if it had worked at all and was sufficiently rigorous, it would have had all these results, yes.

By Mr. Stewart (Winnipeg North):

Q. But it would also have another effect?—A. To a very small extent because, as I mentioned last Thursday, one of the things which we feared before the close of the war was that we might have a paradoxical situation of rapidly rising prices yet with some degree of unemployment.

Q. I would like to ask a question here: was it part of the policy of the government that through operations of the Bank of Canada that situation could be improved?

Hon. Mr. ABBOTT: We tried to use budgetary policy in order to check inflation.

Mr. TUCKER: If interest rates had been raised, the very thing I was dealing with would not have happened. But would there not have been a tendency for the United States to flood money in here to invest in our bonds and the result would have been that we would have been worse off than actually happened, and it would have raised the value of our money as compared with U.S. money even more.

The CHAIRMAN: That is what the witness has been saying for an hour. The witness has been faced with some very difficult questions, I think we should break off for a few minutes before Mr. Low gets at him, that will give him time to change his mental gears.

By Mr. Low:

Q. We insist that Mr. Towers switch into low gear for five minutes or so, while I ask him a few simple and elementary questions. I do so for the sole purpose of establishing the accuracy of certain terms and having on the record bases for what may be further more complicated discussion. As these should be easy questions we should be able to run through them fairly quickly. I would like to ask first: what types of money are currently in use in Canada?—A. Subsidiary coinage and Bank of Canada notes.

Q. How would you define or explain that form of purchasing power which is transferred from one account to another by cheque on a chartered bank?—A. Bank deposits, of course, are another form of money.

Q. You would like to have them classified as bank deposits rather than, say, bank credits?—A. Well, they are bank deposits. The credits are on the other side of the balance sheet.

Q. How do coins come into circulation? If you don't mind, would you trace, let us say, the procedure from the time an order is given until some of those coins find their way into the pockets of the man on the street?—A. The bank branches across the country keep, of course, a certain amount of subsidiary coins in their tills. If the customers, because of their growing businesses or some complication in regard to extra use of cents, decide that they need more, they withdraw coin from the banks. The banks in turn, to replenish their stocks, obtain through the Royal Canadian Mint additional stocks of coins.

Q. Who places the order for those, Mr. Towers?—A. I think the banks place it with us and then we in turn deal with the Royal Canadian Mint, but I am not quite sure.

Q. Then the Royal Canadian Mint, I take it, when the coins are minted hands them over to you to be distributed to the banks?—A. Yes.

Q. And the banks pay for them either by?—A. The banks pay for them by giving us a cheque, on their accounts with us.

Q. Now, just a question in relation to the bank deposits that we mentioned a few minutes ago. This is a very important form of money in our country. Is it true to say that the chartered banks do "create" this form of money? We often hear that statement and I would like to establish the accuracy or inaccuracy of it.—A. That was thoroughly agreed on in the 1939 sessions of the committee, Mr. Low.

Q. Unfortunately, I was not here. It would be very useful, I think, if we could have it on the record now.—A. Yes.

Q. You say, "Yes", that it is true?—A. Yes. I should add this, that we are speaking now of the banking system as a whole.

Q. Yes.—A. If an individual bank by lending more than it should sets up too many deposits on its books, some of which, of course, will go to the other banks, then that individual bank can come up against a stone wall.

Q. Yes.—A. So far as the banking system as a whole is concerned, their ability to add to their assets by making additional loans or buying securities is related very definitely to the level of their cash reserves.

Q. What, then, would be the true meaning of the term "expansion of credit"?—A. That would be the term you would apply when the banking system as a whole was adding to its assets in the form of securities or loans or whatever.

Q. How, now, is any one of the forms of money that we have mentioned put into circulation among people who want to spend for consumption purposes?—A. I am not quite sure that I follow that. There is, of course, no "giveaway" possible; so that if you have a situation in which deposits are increasing, such as Mr. Stewart has observed is the situation that has been very common since 1939, and which arose during the war from the banks financing a part of the government's war requirements; the banks bought the government securities, the government had the money, it spent the money, and the people in general received it: if the situation arises through an increase in bank loans, the borrowers get those loans for the purpose of spending the money in materials or wages or whatnot.

Q. Then would you say it would be true that the vast bulk of Canada's money supply is put into circulation by the chartered banks through the process of making loans?—A. Of course, that concept relates to the absolute amount of notes and deposits in existence at any given time. As you know, the deposits turn over with some rapidity.

Q. That is right.—A. So that the goal of the central bank is, or should be, to see that the basic structure is large enough and hope that the turnover is also satisfactory.

Q. And that brings me to that very question: Is any of our money supply put into circulation by the Bank of Canada? If so, how and to what extent?—A. The action of the Bank of Canada mainly relates to the size of the chartered banks' cash reserves, but if the economy is expanding or if prices are rising, the public's requirements for notes will increase, and when they do it is the Bank of Canada which supplies the requirements. Of our total assets in the form of government bonds at the present time—in round amounts some \$2,200 million—about 1½ billion dollars of that is represented by the outstanding note issues, mostly in the hands of the public, and about \$700 million of deposits on our books.

Q. Then you would say that the Bank of Canada does supply the basis for the latent expansion of credit through the process of increasing the cash reserves in the banks and making purchases directly from a dominion or provincial government of their bonds or securities?—A. When we add to our assets, it is in the form of buying government bonds.

Q. Either on the open market or from the governments themselves?—A. On the open market. There have been very few occasions when we undertook a transaction direct with government; as a matter of fact I should say basically only one occasion; that is when at the beginning of the war the gold and foreign exchange reserves of the Bank of Canada were turned over to the exchange fund. The payment for those was made by an issue of government short-term securities, which has since been renewed and is still in the possession of the Bank of Canada.

Q. Yes, and you would involve, then, the purchase of gold in this whole process, too?—A. We have not bought gold since 1939. All the gold is held by the exchange fund account.

Q. I believe there was a series of transactions some years ago by which the Bank of Canada purchased something like a billion dollars worth of gold and turned it over to the Foreign Exchange Control Board?—A. No, Mr. Low, our gold holdings in 1939, when the exchange fund account went into full operation—I cannot remember the figure, something like 200 million odd, I think—and since then the Bank of Canada, as principal, has neither bought nor sold gold.

Q. When you did buy gold, what was the process, the procedure?—A. We buy it from the Royal Canadian Mint.

Q. And by a cheque?—A. And credit the amount to the government's account.

Q. I see. Has the Bank of Canada ever made loans to the dominion government or a provincial government directly?—A. We have never made a loan to a provincial government, because we have never been asked to act as the fiscal agent and financial adviser of a province, for reasons which in this country, I think, anyone can well understand.

The CHAIRMAN: Mr. Duplessis could use you now.

The WITNESS: So far as the federal government is concerned, yes, we have on occasions made ways-and-means advances of a very temporary character. I cannot say from memory whether those have been outstanding three or four days or a week, but they were of that type.

By Mr. Low:

Q. Very short-term?—A. Yes.

Q. And have they had the effect at any time of increasing the money supply in the country?—A. They would tend to have that effect on a relatively moderate scale, and for a few days or a week: I would say that the real effect was zero.

Q. Then, Mr. Towers, would it be true to say that all money that we use in the country is put into circulation as a debt?—A. No.

Q. If not, in what other way might it be put into circulation, and by whom?—A. Let us take the Bank of Canada part first. I mentioned that the note issue is something of the order of a billion and a half—forgive me if these are very round amounts—and deposits with us are about \$700 million. One could say that that related to a debt, that is the debt of the government to Bank of Canada. On the other hand, the government owns the Bank of Canada, so that the debt is not very onerous.

Q. It might not have to be paid back?—A. So far as the deposits in the banks are concerned, the bulk of the people that own them have no debt.

Q. I suppose it is correct assuming that all that portion of the money—A. I think perhaps what we should be getting at is just this: Money should, so far as possible, not be created from thin air, so to speak. Where there is a liability, there should always be an asset.

Q. Is it correct to say that the total of loans and securities would equal the deposits?—A. Yes. Let us hope that they would be somewhat larger to provide protection for the depositors.

Q. I suppose one is correct in presuming that that portion of the nation's money supply which is issued into circulation as a debt does bear interest at some rate?—A. Yes.

Q. That brings me to a question of policy now. We have got over the rest. Who determines the policy followed by the Bank of Canada in providing for the expansion or contraction of bank deposits?—A. Perhaps if I narrow that down a bit, may I make the question, "Who determines the policy of the Bank of Canada in regard to their attitude on chartered banks' cash reserves, in regard to increasing or decreasing them?"

Q. That would be all right.—A. As I said the other day, parliament has placed that responsibility on the directors and management of the Bank of Canada. The government, however, both by reason of the presence of the deputy minister on the board and by reason of the constant contacts which they have with the Bank of Canada, are aware of how the minds of directors and management of the Bank of Canada are running, and, therefore, have an opportunity, if they do not agree with the course of action proposed, to signify their disagreement in any way in which they see fit.

Q. Do the Minister of Finance and the government have a fair amount of responsibility in this matter as well?—A. The administration of the day has a major responsibility, certainly, as well as the directors and management of the central bank.

Q. Would you say that the responsibility of the Bank of Canada would be largely to carry out a policy determined by a group, that it would be the administration, the advisers of the administration the Bank of Canada officials and perhaps some others?—A. The Bank of Canada has, so far as its management is concerned, a responsibility of not carrying out any policy with which it is not whole-heartedly in agreement.

Q. Yes.—A. Rather than do that, they should make way for someone else who does not, shall we say, have those views.

Q. What factors do they take into consideration in deciding whether an increase or a decrease in bank deposits should be brought about, that is, these people who make the decisions?—A. I would say that if the state of business—and so far as one can see it the outlook for business is such that there seems likely to be inflationary pressure, then under those circumstances the Bank of Canada must struggle against that tendency, whether it takes very strenuous action in the monetary field or whether it considers that in certain circumstances strenuous action would not pay. We have talked about that before in regard to the postwar period. Nevertheless, so far as it can do so, it must struggle against expansion of credit to try to minimize inflationary pressures. On the other side, if it believes that there is likely to be continuing slack in the economy, it should either modestly or very strenuously endeavour to encourage expansion. That was the course of action which the central bank pursued from the time it started operations in 1935 until the outbreak of war in 1939. As was obvious at the time, central bank action may help, but it does not necessarily cure.

Q. And in determining the policy, I take it that you would also try to relate the effect of monetary action to, let us say, budgetary and other non-monetary factors?—A. Certainly; and here I think I would prefer for the moment to speak of other countries—it is so much easier. One has seen cases of other countries where the government, has had serious deficits and the central bank has been struggling against inflation. I do not think I recall any case where the central bank has won. On the other hand, may I just add this, in thinking of postwar Europe, without mentioning the name of any specific country, where the central bank and government have really striven together they have been able to accomplish some very interesting and effective results, so that one can look over Europe and pick out cases where the countries are now in pretty good shape as a result of those efforts, and others where the contrary is true.

Q. Having established, Mr. Towers, the policy, what procedure is adopted to put the policy into effect?—A. If it is the desire to increase chartered banks' cash reserves, the Bank of Canada adds to its holdings of government securities.

Q. And in the alternative?—A. It sells government securities.

Q. Either on the open market or directly?—A. Open market.

Q. To what extent, if any, does the Canadian government use the Bank of Canada instead of the chartered banks to finance short-term requirements—that is, through such things as temporary loans and treasury bills?—A. Well, I think the only answer I can give to that is that we own about \$2,200 million of government securities, running all the way from bills through to a modest amount of longer term securities. In other words, in that sense the government is borrowing \$2,200 million from the Bank of Canada, which represents about 14 or 15 per cent of the outstanding funded debt.

Q. Who determines the rate of interest that is to be paid on those?—A. Most of those securities were bought by us originally in the open market; when a refunding takes place, and the government makes an issue, we buy the issue on the same terms as the public do. There are a few of the securities which relate to the taking over of gold and foreign exchange which I mentioned earlier, where the entire issue is held by us. On renewal the interest rate is a matter of negotiation between the government and ourselves, and is related to the going market rate of interest at that time.

Q. In cases where the Bank of Canada does finance the government on treasury bills, let us say?—A. We buy them on tender, the same as anyone else.

Q. The rate is fixed?—A. The rate is based on the tender.

Mr. Low: Now, I do not know what you would like, Mr. Chairman.

The CHAIRMAN: Five minutes to one is the time that I fixed to give to Mr. Adamson some information. If you have another question, go ahead.

Mr. Low: I do not want to monopolize the time, but if you want me to go ahead I will do so.

By Mr. Low:

Q. Mr. Towers, I suppose you would agree that most of the nation's purchasing power over any period would be furnished automatically through the production process?—A. Through the production and exchange of goods, yes,

Q. I suppose I would be quite correct in saying that this whole statement we have heard so much in past years, that "production creates purchasing power," would be pretty nearly correct?—A. Yes.

Q. I imagine, Mr. Towers, that you would not believe that this process would automatically and mysteriously furnish exactly the right amount of purchasing power to all sections of Canada at all times, even if we were living in that heaven that classicists have conjoured up, one without a government?

The CHAIRMAN: Or with a Liberal government, whichever you like.

The WITNESS: The search for Utopia has not ended.

By Mr. Low:

Q. But over the years there is likely to arise at different times the need for some agency to expand or contract the amount of purchasing power, either in some sections of Canada or over the whole country, and not to leave it all to the so-called automatic processes of production. Is that right?—A. It is the case that an ideal balance is very seldom present. The weather and the spending habits of individuals, and the psychology of individuals, all come into the picture, so that it is not an easy world in which to operate, and no one as yet, I think, has discovered how you can reward everyone exactly as they should be, and tell everyone what they should be doing.

Q. Of course, what you say, added to a lot of other arguments I could think of, would be good arguments for having such things as the central bank.—A. The central bank operates in a very indirect way, still leaving, of course, the very important choice to individuals in business.

Q. Which I very much support. I think that is what we must do if we are to have freedom. For reducing too much purchasing power, for example, what different measures would you think of using? I am not suggesting that you would propose these exactly, but if faced with, we will say, a decision of policy that there should be a reduction in the total amount of purchasing power in the country, what measures would you think of to use if you found that they would be wise and necessary?—A. In the central banking field—and I am now speaking a bit theoretically, I will explain why in a moment—the course of action would be to reduce chartered banks' cash reserves to a point where they had to call loans, sell securities and reduce the volume of deposits. Such action, of course, could be supplemented by government surplus used to pay off debt, but I must say that in the world's history it has proven to be extremely difficult, not to say dangerous, to make any substantial curtailment of that character. There have been cases in history—and in recent history, as in the case of some of the countries which were occupied during the war—where they have reduced purchasing power by calling in notes and deposits and giving a tenth or a twentieth in exchange, a surgical operation usually. I should imagine, only possible after a war and when the country has been occupied and debauched from a currency point of view.

Q. Do you think it might be better to use such things as heavier taxation? I am not suggesting now for a minute that you propose heavier taxation on the Canadian people, but sometimes that is one of the non-monetary methods used to draw in purchasing power and reduce the inflationary pressures.—A. Without expressing any views in the distinguished company in which I find myself today, if in booming times the government does reduce its debt somewhat, that has a certain anti-inflationary influence.

Q. So I think I will be quite right in saying that the country might resort to heavier taxes, more government borrowing by the sale of bonds and securities—A. If the taxes produced a surplus, of course, the government would not be borrowing; it would be paying off debt.

Q. Reduction maybe of government expenditures would enter into it?—A. Yes.

Q. And perhaps, as you suggest, the sale of securities, to reduce cash reserves?—A. We have lived in a very interesting period. My business experience just relates to 33 years, and I have seen some years when the public debt was reduced, but over 33 years it is quite an unusual experience.

Q. Yes, I can well imagine that. Now, on the other hand, over-expanding on two meager allotments of purchasing power as a remedy can be resorted to?—A. In part these are the remedies which were resorted to in 1935 to 1939. When buttressed by increasing cash reserves, the banks did add to their assets and increase their deposits. The addition to their assets mainly took the form of government securities because to add to their loans depends upon whether suitable borrowers want to do it. That is something not in the banks' control.

Q. No one can force loans on suitable borrowers?—A. No.

Q. Is it not true that in some cases in a period of depression many otherwise credit worthy borrowers have been rendered uncredit worthy, therefore the banks would not look at their applications with anything like favour?—A. There would have been a fringe element of them, yes.

Q. Well, we could resort to just the interest, but as we maintained a moment or two ago, we could slash backward. It may be that Mr. Abbott would not like me to say "slash". Maybe we had better say "reduce"; and we could launch a public works program by the government and we could buy back government bonds from the public. These would be general devices.—A. They are the things which are discussed when people speak of the possibility of a recession or whatever.

Q. Yes. I think the minister used the term "cyclical budgeting".

Hon. Mr. ABBOTT: I have never used these words myself, although I have seen references to them.

Mr. Low: Well, we do not want to refer to them.

Hon. Mr. ABBOTT: I know what it means.

By Mr. Low:

Q. Have all of these devices that we have been talking about here been tried over the years, in your experience Mr. Towers, over a number of times?—A. There was an element of that in the thirties, both in the United States and in other places, but I do not believe there is any one thing even including the things you have mentioned which can be in itself a guarantee of accomplishing the result. I think what is required is a combination of a good many things. International trade enters in for one thing, and the actions of other countries, because if one country is trying to pull itself up, and others are not, it will find it very difficult. Hence a concert is required to deal with a situation such as you mentioned.

Q. I will leave it at that point, although I would like to refer to it later.

Mr. APPLEWHAITE: I understood Mr. Towers to say that actually you could never actually achieve an entire balance all over the country between productive capacity and purchasing requirements. If you did, then would you not finish up with a static economy, which would be incapable of expanding or working?

The WITNESS: I do not want to criticize, but I think it is a very hypothetical question. I think an absolutely ideal balance at all times is impossible. But I see your point, that perhaps a very strenuous degree of striving at times will get further ahead in the end because it reflects a more dynamic situation.

Mr. LOW: I am sure I will get a chance.

The CHAIRMAN: Yes, this afternoon, if possible, Mr. Low.

Mr. LOW: I deeply appreciate the cooperative way in which the witness has answered all my questions.

The CHAIRMAN: Yes, it has been an excellent morning and you will have an opportunity later. I would like to have Mr. Low and Mr. Cameron try to exhaust their questioning this afternoon. Mr. Macdonnell will also be on this afternoon. Mr. Adamson asked Mr. Towers a question and the answer is ready. Perhaps it can go into the record as an appendix.

The WITNESS: Shall I read it now?

The CHAIRMAN: Yes. Please.

(See Appendix C)

Mr. ADAMSON: Thank you very much, Mr. Towers, for your statement. I shall try to digest it, and perhaps at a later session I may have an opportunity to discuss the matter further with you.

The CHAIRMAN: That will be on Thursday. I would like to complete Mr. Towers' evidence on Thursday and then call the Deputy Minister. You will be ready to go on then, Mr. Adamson.

Mr. ADAMSON: Yes, I will.

Mr. TUCKER: Mr. Chairman, before we adjourn, I wonder if there is still one more table that perhaps Mr. Towers might furnish us: a table showing the relationship of productivity of Canadian producers as compared with American producers over the period of the last 10 years; I mean producers generally—the effect of the productive power of the average Canadian producer as compared with the average American producers generally. In other words, the producing power of the average Canadian producer as compared with the average American producer.

The WITNESS: I do not think there is any such information, Mr. Tucker.

Mr. TUCKER: You could get a table of the value of production of the working forces of the two countries, and if you divide it by the total working force in each case you would have a rough average anyway. What I have in mind is what is the best relative position of the Canadian dollar as compared with the American dollar? If the productive power of the Canadian producer is five per cent under the average of the American producer, then, of course, I wanted to ask you some questions on that. I understand it is probably five or six per cent under. That has to do, it seems to me, with a wise monetary policy, because although our dollars are called the same thing, there should be some position which would be best for them to have in relation to one another. For example we have international trade unions and a tendency to ask for the same dollar wages in both countries. But there is a question of the relative producing power that they should hold to one another. If you could give us any figures on that at all, it would be appreciated.

The CHAIRMAN: Adjourned until 3.30.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. Graham Towers, Governor of the Bank of Canada, recalled:

By Mr. Macdonnell:

Q. Mr. Chairman, as Mr. Low continued this morning, I thought he was going to take away every question that I had been going to ask, but I think perhaps he has left me a little ground, so I will proceed on the line that I had in mind. I want to ask Mr. Towers in a little more detail just how the central bank would conduct itself now if in fact what is needed is encouragement, rather than perhaps slowing down, of the lending tendency. I would like to recall what Mr. Fleming mentioned the other day, the preamble to the Bank of Canada Act, which speaks about the duty of the bank "to mitigate by its influence fluctuations in the general level of production, trade, prices and employment," though, as Mr. Towers pointed out, that is controlled by the words, "so far as may be possible within the scope of monetary action". What I want to ask is this. The Governor of the bank has told us on more than one occasion in the past 15 years—and he made clear that it was with government concurrence or government acquiescence, because of the close relationship—the Governor pointed out to us that there had been occasions when he had had to suggest caution and moderation. Now, supposing we are facing a period when the chartered banks may appear in some quarters, and perhaps even in government quarters, not to be lending freely enough, and suppose the Bank of Canada shares that view. You said during your remarks to Mr. Low this morning that you would be prepared to act in the altered circumstances, and you did refer us back to the years 1935-1939, when the shoe was on the other foot. Now, what I would like to ask is: Would you tell us in somewhat more detail what were the measures which were taken in 1935-1939, not in great detail, but the general line; and would you say whether you think the experience of the last 15 years has carried us to a point where the Bank of Canada might be prepared to act more positively than it did then?—A. If the situation again came to resemble the 1935-1939 years, which, as one will recall, were years still of considerable unemployment, although business had recovered a fair amount from the 1931-1932 time, the central bank would, I am sure, see to it that the commercial banking system had very ample cash reserves. I should think it would then be probable that the banks would at least add to their holdings of securities of various kinds and in the process expand the amount of deposits in the country. It would be a situation in which those who wanted to borrow and had decent credit standing would be able to do so without any difficulty. If, however, there were other features of the situation which meant that those who wanted to borrow were few in number, or for an average total which was not large, if there was in other words an unduly low level of capital development, exhortation would not accomplish anything. Under those circumstances, one would have to look to see what complementary action might be possible on the part of government to encourage an atmosphere of development and movement forward.

Q. On the part of government?—A. On the part of government. Even governments, however, are not, of course, all powerful in that respect. If our trouble stemmed quite heavily from the situation in other parts of the world, then we are right back to the 1935-1939 situation, with no sure cure so long as other countries are not also playing their part in trying to achieve a revival.

Q. I appreciate that, but what I am anxious to get at is a somewhat more detailed statement, if possible, as to whether you think that anything more specific could be done here. I noted this morning that when you were speaking about the situation at the end of 1950 and the beginning of 1951 you said something like this. You spoke about the "normal course of action", which was purely monetary, and then you went on to speak about, as I noted, going to the banks and, in addition to the purely monetary action which you had taken, really giving direct advice, I suppose. What is the position if the shoe is on the other foot and we seek to stimulate?—You have pointed to the 1935-1939 situation and spoken about trade conditions, and, of course, one does realize what a world we were in then, but has the technique or, let us say, authority of the Bank of Canada in the last 15 years of high activity created a situation where you feel that the bank might go beyond purely technical monetary policy?—A. I do not think it can in that other form of situation that you mentioned, Mr. Macdonnell, because while one can suggest to the banks, and they in turn can suggest to their customers, that they should borrow somewhat less than the amount they are seeking, banks cannot persuade their customers to borrow more than the amount they are seeking.

Q. No, I realize that fully, but that would surely come back to some extent to the action of the central bank, and I shall come in a moment to the clause by which it is proposed to change the reserve requirements, because that would affect the whole question of the banks' reserve position, which, I realize, is not necessarily going to be conclusive with regard to this or that loan. Nevertheless, it would have an important influence on their over-all position. Now, that leads me to ask this question: Do you have direct relationships with any financial organizations, other than the chartered banks themselves?—A. Yes, we have direct relations with dealers in government bonds in the market, that is, relations of buying and selling.

Q. Those dealers, presumably, would be dealing in other bonds too?—A. Yes.

Q. So that, to that extent do you have a very potential direct influence on those people who are dealing with you?—A. Well, I am not quite sure, Mr. Macdonnell, what form of influence you have in mind.

Q. I meant advice. People who are in touch with you are likely to respect your opinion in times that are not so good, just as they do in times that are good. You have explained to us that when you have had occasion to make suggestions to the banks they have accepted them, and I presume that they do that for two reasons; first of all, because they respect your opinion, and, secondly, because the Bank of Canada has a very influential relationship vis-à-vis the chartered banks. Is the same situation not going to exist in a time of less activity? Is the whole story what you said a moment ago, which in itself is unanswerable, that banks could not persuade people to take loans they did not want? Is that the whole story?—A. I think it is, but, of course, it is the case that in a situation of unemployment the action of the monetary authorities in making it easy and relatively cheap to borrow is undoubtedly an encouragement for people to come forward, in that case very often through the investment dealers whom you mentioned to sell issues in the market.

Q. May I read a short extract from the last letter of the Bank of Nova Scotia, which refers to the United States monetary policy and its effect here:

For some months now, the United States has been following a policy of decidedly cheaper money as the leading measure in combatting downward tendencies in employment and income. In Canada, there has been an easing in monetary policy but no such aggressive pressure to make money cheap.

Now, will you say a little more to us about the monetary measures which the Bank of Canada could take and which might have a stimulating effect on the commercial banks? I would supplement that by saying, assuming business conditions suggested an easier monetary policy, would you outline for the committee what steps you would take, for example, with reference to the reserve requirements?—A. Well, first of all, the situation with the chartered banks in regard to cash reserves has become more easy in recent months, and the level of interest rates in Canada has gone down. Now, there is a certain difference between the two countries, which is suggested in a certain form in the Bank of Nova Scotia publication. In the United States things usually take place in the glare of considerable publicity, and the intentions of federal reserve to take fairly aggressive steps to make money easier were talked about a good deal. Moreover, as they had been following a pretty rigid policy in the first half of the year, the moment that they started to act in the market to add to their holdings of government securities and to increase the cash reserves, that was immediately noticed, because they had been doing practically nothing up to that point on either side of the market. So I believe what has happened there is that their market has been talked up very fast by reason of anticipation of what was going to be done, whereas here, while interest rates have gone down and the bond market has gone up, it has been a more gradual performance. I heard a dealer say the other day, and I think his phrase is rather apt, that in Canada the market has been “dealt up”, and in the United States the market has been “quoted up”.

Q. I suppose we rather pride ourselves as being not so emotional as they are in the United States, but I suppose that psychological considerations do actually affect business activity.—A. I am not criticizing their situation. I am just mentioning it. Sometimes because of publicity it gives rise to more extreme and speculative moves, either on the down side or the up side, than we have here.

Q. Let me ask you a more specific question about the reserves. Supposing there is any sign of slowing down of business, could you outline what effect on the business scene you would expect from a drop in the reserve ratios from, say, 12 to 10, or even from 12 to 8? I know you can do it, I think, only 1 per cent a month, but supposing you started in on a policy like that, what definite effect would you expect to find on bank lending, if any?—A. I think I should say that I would expect more effect in a situation in which one was trying to counteract sudden inflationary pressures than I would on the other side. If the central bank had occasion to use the power to increase the minimum cash reserve ratio to try to help deal for the time being with a sudden inflationary push, I would hope that as soon as they possibly could they would return to the 8 per cent level, because I think that that is a reasonable level, and that the power to go up to 12 should be used in the main for temporary purposes when there are inflationary pressures. I think that on that side the action of the central bank would not only have its effect on the commercial banks, but it would also be serving notice on the public that moderation in borrowing was desirable and would reinforce the attitude of the banks towards their customers in explaining the situation to them. I do not think it works so much on the way down, and I would much prefer in that case to see the central bank get to the 8 per cent level, if it was not already there, and then rely on the powers that it has at present so as to produce a situation of distinct ease in the money market.

Q. Another question is this: And that is the effect of interest rates; our interest rates have been moving, as you have already pointed out. Can that be used as a more definite instrument to promote borrowing? I mean borrowing by customers, and to promote activity?—A. Insofar as long-term borrowing is concerned, interest rates undoubtedly have a bearing, perhaps not

as great a bearing in the case of industrial borrowing. Incidentally, I am not talking now of interest rates of 1 per cent, on the one hand, or of 12 per cent on the other, but rather of what I mean by a reasonable range. I doubt whether it has a great bearing on industrial borrowing. I think what has a bearing on all borrowing is the ability to do it readily at some rate. But the interest rate of course can have a bearing on the borrowing for housing and on certain other forms of capital development where interest rate charges over the years are of some significance in relation to the expectation of profit from the development.

Q. I am glad you mentioned housing because I was just going to ask about that very thing. Would you say a little more about that, about housing, and the other types of activity which you think would respond to the interest rate, and would you say how far you think banks can have an influence there?—A. I think it has a definite bearing, or can have a definite bearing on municipal borrowing, perhaps on provincial, and on borrowing for housing.

Q. And then I take it you would say that to borrow for these purposes has a very important stimulating influence on the economy?—A. I think they can make a contribution. Incidentally, if I might perhaps leave the ground a bit and fly into the clouds—and again may I use the safeguarding device of speaking of another country—in the 1930's when the United States got into such very serious deflationary troubles with tremendous unemployment and so on—and they of course were only one of the countries which did—they made certain efforts to stimulate business and employment by public works of various kinds and all the various plans which were devised after the Democratic administration came into power. But they seemed to be struggling against the tide. In other words, they were to some extent forced to invent things to do. And it seems to me that one of the safeguards of the present situation—I am talking not in terms of the next 2 or 3 months or even 6 months, but a longer term—is the fact that with their greatly increased population there is a great deal to be done, whether roads, schools, hospitals, housing, or what not.

I do not see them having to invent things over the next five years. I believe that if there is need for a form of encouragement from the government which will give them a stable level of activity at least projects do not need to be invented. I think that means that there is the prospect of capital developments which require borrowing being done, if the financial conditions are favourable. They are better off than they were in the so-called period of the stagnant economy of the early thirties.

Q. I am interested in your phrase of the projects that do not need to be invented. Would you extend that a little further?—A. It is easier to talk about another country than your own. If one talks about one's own country, then a number of local considerations come in. I believe that there is a very considerable backlog in the United States in the public field because of the great increase and the continuing increase in their population.

Q. Well, perhaps it is not fair to press you further with regard to our own country. Must I take it that a question of that kind is a question that must be asked of the minister? But I wish you would say something about our own country.—A. I believe that our situation has many similar aspects, but of course when one starts to specify the various fields in which they exist, it so often happens that there is some controversy as to just who shall do them. Whether it should be with federal assistance or whether it should be this, that, or the other thing, and that is the thing I would like to keep out of.

Q. I quite realize that you do not want to get into that field; but it seems to me that the bank, perhaps better than anyone else, might be in a position to give us an objective picture of what is expected in the phrase which

interested me "projects that do not need to be invented." Of course, that is what I am interested in, and if you can state something even in the way of a generality a little more specifically than you have, I think it would be useful. You have told us after all that the banks and the government of necessity work closely together and under your terms of constitution you are the adviser of the government.—A. In speaking of the United States and the things to be done in what you might call the public field my references might apply to Canada as well.

Q. Can you go beyond the public field?—A. Well, I spoke of the needs of a growing population and I mentioned some of the needs in the public field where I think there is still a backlog. Naturally one would expect that the needs of a growing population would affect the private field as well. We do, of course, depend very greatly on activity in the United States. And if we can count on there being quite a dynamic and growing economy over the next 10 years—and I believe we can—then the effect upon Canada is undoubtedly favourable.

Q. Going back to the phrase which I have quoted already once or twice, when you spoke of the projects which did not need to be invented, can you by way of illustration mention any projects that were invented, I mean, having something definite in mind, or was it merely a phrase with which to describe the line of activities you had in mind?—A. Well, again speaking of the United States there was some criticism there in those years for which the word "boon doggling" was invented. In other words, there was a suggestion that in order to provide employment a larger number of people were working than were actually required for example, or were doing things that were not highly useful. I do not know how much truth there was in that, and neither would I suggest that I am criticizing them, but there was an element of truth in it.

Mr. HUNTER: You mean employment urgency?

The WITNESS: Yes.

Mr. FRASER (*Peterborough*): Such things as building a bridge that did not have any entrance or exit.

By Mr. Macdonnell:

Q. Would you be prepared to say that we must not regard the Bank of Canada as here to do more than to take care of what you might call the mechanical money situation, and that the actual impulse or encouragement must come directly from the government itself?—A. Oh, I would think that the encouragement given by a situation in which it is relatively easy to borrow at rates which are reasonable would apply in the private sector as well as in the government. But I suppose that all of us have a tendency to think back to the situation in the 1930's when the drubbing which people had taken all over the world naturally made the private sector hang back. I would hope that in the foreseeable future that would not be true and I do not believe it will.

Q. When you spoke of the activity of the banks between 1935 and 1939, would it be correct to say that it was confined mainly, perhaps almost wholly, to housing, or were there other stimulants also supplied?—A. In those years?

Q. Yes.—A. So far as the Bank of Canada is concerned, our activity was confined to working on the foundation of the monetary structure to produce a situation in which it was easy to borrow at reasonable rates. That is where we started and that is where we finished.

(The division bell rang in the House).

Mr. MACDONNELL: Mr. Towers will be here on Thursday, will he not?

The CHAIRMAN: Mr. Macdonnell, you were in the middle of a sentence when the division bell rang.

By Mr. Macdonnell:

Q. Mr. Towers, in the few minutes I have left this afternoon I would like to turn to another topic. I understand that there was originally in the Bank Act a clause requiring gold reserves?—A. In the Bank of Canada Act?

Q. Yes. And that was effective how long?—A. It was never in effect, because it was always suspended as I recall it.

Q. I knew that it had been suspended for many years past now.—A. Excuse me. There was a provision that the Bank of Canada should have a gold reserve of not less than 25 per cent of its note and deposit liabilities. That was in effect from the time we started operations until the war broke out and has never been back there since. There was another clause which referred to our either buying or selling gold at a fixed rate. That has never been in operation.

Q. The effect was removed in 1940?—A. Of the minimum reserve?

Q. Yes.—A. I think right at the beginning of the war when we sold all our gold to the exchange fund account.

Q. Since then there has been no check of any kind?—A. Actually even while that clause was in operation it did not provide the kind of check you have in mind. The thing that provides a check is the situation in which the Central Bank has to buy gold at a fixed rate or has to sell it at a fixed rate to anyone who demands it. That is the check. Otherwise if it is possible for the bank to buy gold at fluctuating rates—it means also a fluctuating exchange rate. The bank could add to its gold to preserve a 25 per cent minimum if it cared to pay a premium to do so. The real check is the full-fledged gold standard.

Q. Am I right in thinking that under the Currency, Mint and Exchange Act there is now a clause nullifying the clause which still remains in the Bank Act which says it does not come into operation until executive action is taken?—A. Yes.

Q. Does that mean that the bank has now unlimited power to create money?—A. Yes, and under certain difficulties that is what it has had from the start.

Q. Is that universal in central banks? What is the situation in the United States?—A. The United States still has a provision for minimum gold reserve, but they are on the gold standard and that is where the check comes in.

Q. Do you consider it undesirable to have any limitation of any kind on the right of the bank to create money?—A. I do not know what effective limitation there can be unless and until it is the decision of Parliament to go back to a gold standard.

Q. Would it not be possible in your opinion to have some legislative requirement which, let us admit, would always be in the power of the government but nevertheless would give the people of Canada through their members of Parliament the chance to know what was going on before currency was increased beyond a certain limit? Let us assume we one day had a government which was not of such a calibre as this present government considers itself to be.

Mr. HUNTER: For a moment I thought you were going to weaken.

By Mr. Macdonnell:

Q. Supposing we had some irresponsible people in government and they were running into an election where it was highly desirable in their opinion to make family allowances, say, \$500 per child instead of what it is now, and

supposing they had the power to do that—as I understand it now, they have the power to do that and nobody can stop them.—A. I referred the other day to a red light which might flash in such circumstances for instance if the Governor of the Central Bank resigned.

Q. Yes. That would be useful.

The CHAIRMAN: Useful as a red light.

The WITNESS: To use an expression: “nothing became them so much as the mode of their departure.”!

By Mr. Macdonnell:

Q. However if that happened you probably would find that the successors would probably acquiesce. I am really seriously asking this question: In your opinion would it not be a good thing to have some kind of legislative hurdle that has to be taken before the barriers are opened beyond a certain point? In other words is it a good thing that we have a situation now where, as I understand it, there is no limitation of any effective kind because after all if you and your colleagues did resign—and I am speaking now of an irresponsible government—all the government would have to do would be to replace them with creatures of their own who would not resign. I did not intend to talk. I wanted to hear you talk. I am interested in that question. I hear great difference of opinion on it from people whom I respect, but I am not able to get out of my head the feeling that a situation might arise where it would be an extremely good thing if the financial authorities before going beyond a certain point had to have the salutary experience of bringing a measure in the House of Commons. There have been occasions—not many I admit—but actual occasions where opposition has attracted the ear of the public and where government measures have been withdrawn. It is hard for us who live in Canada today to realize that it has happened.—A. I do not know of any practical way of doing it short of being on the gold standard and having provision for a minimum gold reserve. The only other way in which I could think of it being accomplished would be to write into a statute that the sum total of the note and deposit liabilities of the Bank of Canada should be no greater than a sum named—an absolute amount. As they are today, \$2,300,000,000, I have forgotten the exact figure—that they should be no greater than some other amount somewhat above that, but I should think that it would be necessary to leave sufficient leeway—because Parliament is not always in session—so that the damage could be done in any event, that is the damage which you fear.

Q. Well, I would agree with you as to some measure of leeway although Parliament can be summoned very quickly now. Let us assume there should be some flexibility, and I am not competent at the moment to suggest just how that should be provided. The minister is not here and I can speak perhaps more freely than I otherwise would do. There might be occasions in which you in the bank might find it very convenient to have a legislative requirement which meant that your wishes could not be overridden by the government until Parliament had had a look at it. In other words, I find myself a bit uneasy at the thought that the thing is now wide open. I know that competent people tell me that in any hurdle one tries to set up as a restriction is make believe, but I do not see why it should be make believe. Let me remind you that I am speaking not of the government of today but of irresponsible people who might be prepared to take headlong action to preserve their power.—A. I think that goes a bit beyond my competence because—if I may speak as a layman before professionals in this field—it does get very much into the question of the extent to which parliament or a legislative body should place checks on the administration of the day. Does it not?

Q. Yes, but also it seems to me it has a very important bearing on the constitution and power of officials of a central bank. After all you are set up—and I will not read this recital again—but you are given a position of great importance. You are looked to to control and protect the external value of the national monetary unit. I suppose that most people when they read that would be a little surprised—I think I was a little surprised myself when I first realized that there was no limit of any kind on the power to create money in this country.—A. That, I may say, of course, is by and large the situation in most every country of the world with the exception of the United States.

Q. You have explained that it is not so in the United States for the reasons you have given. What about the United Kingdom? My understanding was there is some legislative requirement there?—A. There is something in regard to the note issue. I cannot remember why they stick to that, because there is no restriction on the Bank of England in its ability to increase the cash reserves of the commercial banks. There is some limit on the note issue and from time to time that is raised or lowered.

Q. By whom?—A. I should be able to answer that, but I cannot remember whether it is the equivalent of an order in council.

Q. We might even settle for an order in council if we could not get anything better.—A. But, in any event it is government or parliament and of course is publicized.

Q. Yes.—A. But it has been done so often now that I do not know that the publicity is of any great value, and I think also it takes the form of locking the stable door after the horse has departed.

Q. Why would that be so?—A. Because they do not extend it to include deposit liabilities of the central bank.

Q. Why should it not be possible to have a legislative measure which would lock the door before the horse is stolen?—A. It would be possible to have a legislative measure which put the central bank in a certain maximum sized box, so to speak, by putting limits on how far it could go both in respect to notes and deposits, but I think that the most I can say is first of all that—no I would change that remark. I think I must limit myself to saying that it is very much a matter of government policy and so far as I can see also Canadian parliamentary procedure and it really should be the minister who should deal with that.

Q. Mr. Chairman, I think I have taken my time and would like to just ask this: would Mr. Towers be good enough to turn this matter over in his mind between now and Thursday, and on Thursday I would like to raise this question hoping he might be able to suggest some means—not rigid and mechanical because I would think there might be danger in that—but some means whereby there could be flexibility and at the same time not the wide open situation which you have at the moment where in irresponsible hands I think there could be terrible damage which I think Mr. Towers would agree.

The CHAIRMAN: Mr. Macdonnell, the thought ran through my mind that the Americans limited, their public debt by statute and they found that did not work very well.

Mr. MACDONNELL: I think that is a relevant point.

Mr. TUCKER: It is by the constitution. That is more than by statute.

The CHAIRMAN: They found it did not work anyway.

By Mr. Macnaughton:

Q. Mr. Chairman, if I may paraphrase Mr. Tower's own words and direct a few questions as a layman to a professional person I have a few points of fiscal and monetary policy and cash reserves under the projected amendment

to the Bank of Canada Act. Going back to the preamble to the Bank of Canada Act it says:

To regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action...

That seems to be the theoretic basis and I suppose from that we can deduce that the Bank of Canada can make money easier and cheaper or harder and more expensive. In effect the policies of the central bank affect every one of us, potential borrowers of all kinds. If I could, by way of explanation, direct you back to the 1930's, as I understand it, the general monetary thinking then was if you had a balanced budget it was the apex of a good system. Of course, it was not always possible to have a balanced budget and we started to use taxation as a means of attempting to control inflation. Then we went on to the cyclical theory of budgeting and found that even high taxes did not necessarily work because people produced less even though they paid higher taxes and we had a slowdown in industry to a certain degree, and all of us wanted greater take-home pay regardless of the rate of taxation. So that fiscal policy, which as I say we used through the thirties for awhile doesn't seem to work altogether. Now the theory seems to be, as I understand it, if we can just control credit by changing the cash reserve of banks for example, we can have a much better stabilized economy and better monetary system throughout. I notice that in the Bank Act before us there is a new section, or should I say a transfer of an old section from the Bank of Canada Act to the Bank Act. It is section 71 on page 32 of the bill before us and it deals with cash reserves and says in effect: "such reserves shall be not less on the average during any month than 8 per cent, or such other percentage as may be fixed by the Bank of Canada under the provisions of the Bank of Canada Act". Then, if you go to the Act to amend the Bank of Canada Act you will see that on page 7, section 7, referring to the new section which is called 18: "Subsection 1(o) the bank may alter the percentage of the deposit liabilities of chartered banks payable in Canadian currency that chartered banks are required by the Bank Act to maintain as a minimum average cash reserve during any month, so that the percentage is not less than 8 and not more than 12; the bank shall, not less than one month "before the month in which any such alteration becomes effective, publish a notice of the alteration in the Canada Gazette, and the bank shall not in any month increase the percentage by more than one;"

This repeals section 11 of the Old Act. As far as we are concerned, if I understand it correctly, it means that the cash reserve rate is only another weapon for credit control and that the management feature of credit control is to be operated by the central bank. While I admit that under the present circumstances the average cash rate is 5 per cent, I am told that the working minimum is around 10 per cent. In other words, the Bank of Canada can vary between 8 and 12 per cent with a notice of one month for each one per cent change. That is the effect of the new amendment, as I understand it. Now, my questions have to do with this general idea of fiscal control and monetary control, the use of cash reserves and the raising and lowering of the rate, demanding more cash reserves, or taking less in order to influence the day to day transactions in the market. I have already furnished you with a list of questions, because I thought it might help slightly, so that if you would care to turn to question number one, it is this: do you think that monetary policy is more effective than fiscal policy as a means of controlling the level of business?—A. May I say first, because you referred earlier in your remarks

to the preamble of the Bank of Canada Act, that I certainly would not suggest that monetary policy, or indeed the best of fiscal policies, are all that is needed to ensure a prosperous country. I think they can help. But I do not think the two things can in any way be completely divorced. In other words, I think that they are a team which has to be driven in double harness. A monetary policy which is striving to counteract inflation will be defeated by a fiscal policy which is highly inflationary or vice versa. While there could be variation in one or the other, depending upon the general situation, they must be generally non-contradictory. I believe that the combination of the two, if the policies are appropriate to the times, can be distinctly helpful to the general business of the country. I do not suggest that it can always make it perfect.

Q. Well now, some people have said that the controlling of the cash ratios is unnecessary tinkering with the banking system?—A. There could be, of course, all kinds of views on that. While I think no country should copy others simply for the sake of copying, it is the case that some variation in ratio is now considered desirable in a great many countries of the world, but I believe its main virtue, as I have said before during these meetings, would be to help deal with the situation of a sudden inflationary surge. The methods which the central bank has of trying to tackle a problem of that kind—that is by trying to reduce the cash reserves of the chartered banks or prevent them increasing—cannot operate or should not operate too suddenly because that would mean, in the circumstances I am discussing, a very rapid and extreme drop in all security prices; that is, of all bonds, and a very rapid and extreme rise in interest rates within a period of we may say a couple of months. I think it is desirable to avoid moves of that kind. The possibility of raising the minimum requirements for cash reserves does help, temporarily only, to relieve the sudden weight on the security market.

Q. I hesitate to ask this question but we may as well clear the ground. Do you just want control for the sake of control?—A. God forbid! Perhaps I should remind you that having been chairman of the Foreign Exchange Control Board for 12 years, my colleagues and I on that Board had a full dose of the agony of exercising controls.

Q. Don't you think that the banks can determine the most effective level of reserves? They have been doing it up to now.—A. The banks in general have had a target of 10 per cent, but of course that tends to change. I mean, sometimes I have been told by a general manager that he has decided they should really aim at 11 per cent; then the situation changes a bit, or they change their minds, and decide 10 per cent is quite enough, so that there is perhaps a greater variation in regard to what the reserves would be than might be generally understood. And of course, if as a result the system as a whole decides that it can get along perfectly well with $9\frac{1}{2}$ per cent rather than where it happens to be when trouble starts, say 11 per cent, while that seems a small difference, it is a major one so far as the system as a whole is concerned. I would hope that under the proposed system embodied in these bills that the provision for averaging the reserves, rather than having an absolute minimum at any time, would result in the system as a whole working in a much more uniform way in regard to the average level of their reserves than they have in the past.

Q. Well, when the economy is softening, do you think a reduction in the reserve ratio from 12 per cent to 10 per cent, for example, is going to have any significant effect in creating any business revival?—A. I think the same effect may be had in another way under circumstances of this kind by action of the central bank to increase the absolute amount, and therefore the ratio of the banks' cash reserves. As I said earlier, I would hope that the power to

raise the minimum ratio would only be exercised at a time of sudden need and that as quickly as possible after that we would get back to the 8 per cent ratio.

Q. Well, is it not true that monetary control is really only significant in periods of expansion accompanied either by inflation or not?—A. It may be the case that it is easier to prevent extremes on the upside although I am not quite sure. That is rather a loose statement, because if you have a country in which the fiscal policy is extremely inflationary, then the central bank cannot prevent the resultant extremes, but given a reasonable chance, I think it is a bit easier to minimize extremes on the up side, than it is to create better business conditions when things are down. Nevertheless, I think that monetary policy can make a contribution to that. For example, while one can never prove these things absolutely I think there was once a situation in Canada which was so plain that one could almost prove it, even although it is in the field of monetary policy. I do not believe that we would have been in as extreme a fix in 1930, 1931 and 1932 had there been a central bank at that time, because part of the fix we were in—not a great part, but a part—was due to extreme tightness of money which lasted through into 1933.

Q. Well, my next question would be, in not monetary policy being given too much credit as a positive factor under all conditions?—A. I didn't know it was being given any credit!

Q. Well, we hear an awful lot about it, especially in the Bank Act.—A. It certainly should not be given too much credit whatever that is.

Q. Would you not say that monetary policy is really a special manoeuvre for special circumstances?—A. No, perhaps discussion of monetary policy is rendered a bit more difficult by reason of the fact that in the last 30 years we have had such terrible swings—swings down and swings up. Whether this will continue to go on or not, I do not know, but I hope not. I would sooner think of monetary policy in a stable economy, as a policy which saw to it that the financial structure was large enough to take care of all the legitimate demands on it. In that case it would be larger year by year, so that at least lack of currency and credit would not be holding the country back. If it is not a stable economy, then monetary policy may be of some use in minimizing the excess either in the upside or the downside.

Q. If you restrained credit from the central bank, obviously it has a dampening effect. Is there any value in assuming that the opposite may be effective? For example, cheaper money, we hope, will expand trade in a slipping period, but it may be that no businessman in a slipping period wants to borrow money.—A. It may be that most businessmen do not and, therefore, relatively cheap money or easy money cannot be guaranteed to produce a high level of business. On the other hand, one can be quite sure that in a time such as that the facility of borrowing easily and cheaply will induce at least one borrower to do it, whether it is a municipality or province or whatever. Even if the minimum is a million dollars there is some effect. I believe it is much more than that, but no one can measure it and it may not be, of course, enough to produce good business.

Q. Will changing the reserve ratio of itself revive confidence in a slipping market or increase the demand? It may even do the opposite. What I am trying to get at is: What is the theory behind it and what is it that you, as professional bankers, think that the introduction of this increase of cash reserves will do?—A. I think that the main purpose would be the one that I mentioned earlier, to hold the level in a substantial inflationary spurt without having to rely completely and suddenly on activities in the securities market. I am not so impressed with the virtue of that on the downside, so to speak. It is possible that the psychological effect would not be good. That is one

reason why I would like to see the ratio back to its minimum of eight as soon as possible after it had rendered an assist in connection with an inflationary spurt.

Mr. MACNAUGHTON: That is all.

The CHAIRMAN: Mr. Macnaughton, there was one question you asked that I thought unsuitable. I had not seen the question before—and it is not my right to do so. The question was, “Do you just want control for the sake of control?” I think that question is not appropriate for this witness, and I would ask that you expunge that from the record. I do not think it is a proper question to ask this witness.

Mr. MACNAUGHTON: I have no objection at all. It was not meant to embarrass the gentleman; it was to clear the decks, if anything, and I thought I made that clear.

The CHAIRMAN: When you ask him, “Do you want control for the sake of control?”, surely the witness, from his appearance, demeanor and position, is not the person to whom that could be applicable.

Mr. MACNAUGHTON: That is very true, but I have heard that question outside of these walls. I asked it in order to clear it, but I have no objection.

The CHAIRMAN: It struck me as not being in the tenor in which we have been asking questions and receiving answers.

Mr. Low: I thought, Mr. Chairman, that Mr. Towers' answer was so good that it could very well stay.

The CHAIRMAN: The answer was a good answer, but I do not think that he should have been put in a position where it was necessary for him to answer that question.

Mr. Low: I wonder how Mr. Towers would feel about it.

The CHAIRMAN: It is not alone Mr. Towers' feeling about the matter; it is also our feeling about the matter.

Mr. TUCKER: I do not think, Mr. Chairman, that we should be too tender about these things. If somebody wants to ask a blunt question, I am all in favour of blunt questions and good answers to them. When such a question as that is asked and the witness gives a good answer, I think it should stay in the record.

The CHAIRMAN: There have been some blunt questions and, I have not interfered but I thought that this question—which was not intended to reflect on the witness—does reflect on him.

Mr. TUCKER: Some people are saying that all this is for is to grant more control to Mr. Towers, and he has been asked the question and that is the answer.

Mr. HUNTER: I would suggest that if the witness is never asked a more embarrassing question than that he will have a very graceful life.

The CHAIRMAN: Now, Mr. Cameron.

Mr. PHILPOTT: I have just one question. It seemed to me that Mr. Towers dealt with an extremely important point in one answer there and he dropped it too quickly, and it seems to me that this is the time to take it up, when he said that in 1931-1932 things were very much worse than they would have been had we had a central bank. I think we should have that developed a little now, while we have all heard that; that is, how would a central bank have acted in 1931 and 1932 to improve the situation?

The WITNESS: Well, I will try to do that briefly, Mr. Chairman, which means that I can only hit the high spots. Incidentally, I expressed the view that things would have been somewhat better but, of course, by no means

perfect. The situation at that time was that there was no means of increasing the dominion note issue which was legal tender except by the banks borrowing from government under the Finance Act. They had already borrowed quite heavily in the twenties, culminating with 1929 and early 1930, and were quite anxious to repay those borrowings which had been outstanding in rather substantial amounts fairly continuously. In the effort to repay them, they reduced the cash reserves of the whole system, and consequently produced a situation where banks were struggling to cut down their loans. Part of the struggle related to the fact that some of their clients were in trouble, but it went beyond that. Part of it was dictated by financial necessities through lack of cash reserves, and the only thing done to cut the Gordian knot was in November, 1932, when the then Prime Minister, the late Mr. Bennett, persuaded the banks as a group to borrow \$35 million and to put an end to the struggle to repay. That was a very, very modest move in the circumstances and it came only in November, 1932.

Mr. PHILPOTT: Thank you very much.

By Mr. Cameron (Nanaimo):

Q. I wonder if you could come back again to the role of the central bank in the control of currency and credit? I wonder if you could assess for us what is, in your opinion, the relative value and effectiveness of the various devices at the disposal of the Bank of Canada to that end for controlling and regulating currency and credit?—A. It has only one means of operating, and that is either by working to increase the commercial banks' cash reserves through adding to the Bank of Canada's security holdings, or working in the other direction. From there on in, the effect is indirect through its influence on the banks and in turn through its influence on the market for government securities and all other bonds and the general structure of interest rates.

Q. Would it be right, Mr. Towers, to assume from your statement in your brief to us with regard to the consultation that the Bank of Canada undertook with the chartered banks in February, 1951, that these measures that you speak of had proved somewhat ineffective?—A. In a very high state of liquidity of institutions it has been difficult to make them fully effective without, in our opinion, disrupting the securities market and changing too rapidly and in too extreme a way the level of interest rates. So we have on occasion tried to supplement our indirect activities with more direct one of the type you mentioned in the way of direct cooperation with the banks.

Q. When did this extreme liquidity first become evident?—A. It developed during the war—It is mentioned in my statement of last Thursday, I think—by reason of the increase in the chartered banks government security holdings of \$2 billion 500 million.

Q. The reason I asked was that I noticed that in looking over the proceedings of the last decennial revision of the Bank Act in 1944 that you had this to say in answer to a question by the late Mr. McGeer. Mr. McGeer's question was this:

By Mr. McGEER: . . . you have no power to force the banks to sell securities or to buy them, nor have you any power to force the public to either buy or sell securities; that must be a control which comes into it purely through the voluntary cooperation of the banks and the public; is that not correct?—A. Yes, but experience has always shown that this practically automatically takes place.

—Has there been any change in the situation since 1944?—A. I am afraid that I cannot make sense of the question or the answer. I suspect from the answer that Mr. McGeer was harking back to 1935-39, and the view I expressed was that if the central banks followed an easy-money policy, that the

commercial banks would be in a very comfortable cash situation and that they would in fact make additional loans if there was a demand for them, or they would acquire additional securities. Mr. McGreer said that you cannot force banks to buy securities or force the public to sell them. My view was that the banks would in fact buy them by offering slightly higher prices and this would attract sellers.

Q. And is that the situation today with the banks?—A. Yes.

Q. I was wondering; you mentioned the possibility of the central banks having pursued what you called I think, a more rigorous monetary policy and expressed the opinion that it would not have been wise to do so. In view of what you have told us of the inflationary pressures from abroad, would it not actually have been an impossible thing for the central bank to pursue that rigorous monetary policy?—A. I do not know. It might have. One can never tell what reaction will be set up in another country to what is happening here. If we had pursued a very rigorous policy, then the interest rates would have been a great deal higher here. Would that have attracted mass-buying from the United States? It might have, in which case we really would not have been able to carry through that policy unless the exchange rate on the United States dollar had gone to a very substantial discount.

Q. Well, would you say, Mr. Towers, in view of your statement, that in actual fact the Bank of Canada by monetary measures and by open market operations and so forth, can actually control the volume of currency and credit?—A. It could, theoretically, yes, within limits not setting up too great a strain in other ways; I think it would be fairer to say that it can have a considerable influence rather than complete control.

Q. Rather than control?—A. Although the theoretical possibility of complete control exists.

Q. Now, most of the discussion over the questions which Mr. Macdonnell asked has been based on the question as to the effectiveness of Bank of Canada action with regard to controlling inflation. Mr. Macdonnell asked you some questions with regard to your powers and the effectiveness of your powers in controlling deflation and promoting a higher level of economic activity. Now, I wonder if you would agree that in actual fact our currency and credit situation is a reflection of economic activity?—A. It is in a sense, although they inter-act on each other. In other words, if the credit situation is extremely tight, then that will have—let me say that if it is extremely tight at a time when there are not inflationary pressures—that it will have a bearing on commercial activity, making them somewhat less than they would otherwise have been. But when you look at it from another direction, if commercial activity is tending upwards and the money supply is ample to support it, is it the commercial activity which keeps the money supply up or the money supply which enables the other thing to go up? Is it not a case of the hen and the egg?

Q. It is a hen and egg proposition. I wonder if you will not agree that the situation we have had, for instance in the thirties, was a case in point, that no matter what the monetary policy that the central bank might have pursued, they would still have been unable to promote the revival of economic activity?—A. I think that they would have been unable to promote a really satisfactory revival of economic activity. I think that some of the extremes of that time would have been eliminated.

Q. Would you say there would have been really no decisive effect upon it?—A. I think that is right, but in a situation of that kind, if it makes it 10 per cent less bad, that is worthwhile.

Q. Oh yes. I was interested in your statement earlier today. I forget now in what connection it was made. You suggested that the chartered banks had financed the government's war program.—A. In part.

Q. I wonder if you could tell us the mechanics of that procedure?—A. Perhaps you will forgive me if I am not absolutely accurate. I could be by saying I would like to do a memo on that and come back to you, but I think that by speaking in a round fashion I can deal with it now. The chartered banks financing of government war requirements took place in various forms. To some extent it arose from the government selling certain short term issues to the banks. A little later on in the war the financing took the form of issuance of deposit certificates by the government which the banks took up in proportion to their size, and, generally speaking, they held them in their portfolios rather than sell to anyone else or sell on the market. My recollection is that the maximum amount of deposit certificates outstanding was something in the order of \$1,200 million, and there were also short term issues. But, over and above this direct financing of government, the banks did add, during the war, to their general security portfolios by buying in the market. I have forgotten what amount that represented.

Q. I do not want the exact figures, but what I would like to ask now in what form did the banks pay for those certificates?—A. It took the form of crediting the account which the government carries with each one of the chartered banks and the government spent that money for war purposes.

Q. In the production of the government's war program, when the proceeds of these credits established with the chartered banks were distributed in the form of wages, salaries and so forth, and cheques were presented to the banks, on what basis did the bank draw the currency with which to cash cheques?—A. In actual fact, the amount of currency required would, of course, increase only gradually. Mostly it would take the form of a credit to someone else's account or perhaps to a contractor in the first instance, some of which would go in cash to payrolls, and some of that cash would come back in savings accounts, so that the bulk of it would represent an increase in the deposits of individuals and corporations transferred out of the government account.

Q. Would it be incorrect to say that in large part the chartered banks' purchases of government paper for the purpose of financing the war were paid for by credit created by governmental action?—A. The very fact that the government went to the banks for that financing was in itself a prelude to an increase of credit. Now, as I said in my first statement, it was not undesirable to increase credit substantially in the inflationary conditions of the time. The government—and incidentally I should not express any views on this although I do not think it has been a matter of controversy—contends I think that its rate of taxes during the war was about as high as the public would stand without affecting their willingness to work. If that is true, they had reached the limit of taxation. Their next attempt was to persuade people to save and they offered as a vehicle of savings victory bonds. There is no reason for my saying too much, because I was so much mixed up in it, but I will say that the organization which was built up before I became chairman and carried on through the remaining years of the war seemed to me to have done about as good a job of persuading people to save as anyone knew how. But, after all that is said, it was not enough. The central bank, as you can imagine, did not say to the government that if they could not get enough from taxes and pure savings to pay their bills they would have to reduce their war activities. Central banks very wisely never say that during a war. It had to come from the back pocket.

Q. Would you tell us then, Mr. Towers, where the difference in chartered banks holdings of government bonds in 1939 and in 1945 came from. In 1939, from the report of the bank, the chartered banks holdings then were \$1,234

million I believe and in 1945 they had raised to \$3,438 million. Now, what was the source of that increase?—A. It was the government financing we have been talking about.

Q. It was really the government's action that created these new assets of the chartered banks?—A. In the main, although some of the increase in their portfolios came from purchases in the market, as individuals or others who bought victory bonds decided they had some need for cash before the war was over and sold them. But whether it was direct or indirect, this was financing of the government's war expenditures by the banking system to that amount.

Q. And incidentally increasing the chartered banks assets in the process?—A. Yes. Although I should add too that the deposit certificates which formed the main factor for finance were issued at an extremely low rate of interest. My recollection is that the last ones were—I wonder if the president of the Canadian Bankers Association could remember that figure. Was it $\frac{5}{8}$'s of one per cent?

Mr. T. H. ATKINSON: The first was $\frac{7}{8}$'s and it dropped to $\frac{5}{8}$'s.

The WITNESS: $\frac{5}{8}$'s.

By Mr. Macdonnell:

Q. Then the assets went up, as well as, I take it, the liabilities?—A. The deposits were increased *pari-parsu*.

By Mr. Cameron (Nanaimo):

Q. Could you give us an idea of what part of the earnings of the banks were made by reason of their holdings of government paper?—A. My guess is it was very small because the rate on deposit certificates of $\frac{5}{8}$'s would just about cover the cost of handling their deposit accounts. To the extent that the funds got into savings accounts I guess the business was unprofitable.

Q. Those savings accounts had grown due to government action?—A. Well, both current and savings had grown due to government action. Now, the financing by the banks in the form of deposit certificates would mainly have had as its counterpart a growth in demand deposits. The financing in other forms had as its counterpart the growth in savings. Although you cannot follow the dollar around, you can perhaps see the end results afterwards.

Q. I would like to come back again to this question of the effectiveness of Bank of Canada control of currency and credit by following up a line of questioning Mr. Macdonnell gave you with regard to the position of gold in our monetary system. Now, I understood you to say that the United States is on a gold standard?—A. A purist might say they are not fully on it, but they are on an international gold standard inasmuch as the Bank of Canada could turn its holdings of U.S. dollars into gold and bring that home if they so desired.

Q. But that is not true in the case of Canada?—A. No.

Q. In fact, there is not now any relationship between our currency and gold?—A. There never has been in our history. Ostensibly there has been at times, but in fact, never in the history of Canada.

Q. Is it correct to say we have a managed currency here?—A. Yes, in one form or another. That has been true all through our history, too.

Q. In view of the difficulties you told us of with regard to effective measures of control other than that of persuading or could one say bludgeoning the chartered banks, who manages the currency?—A. That is a job which the awful preamble says the Bank of Canada has to undertake.

Q. But you tell us you have very severe obstacles in the way of doing that effectively?—A. I do not want to exaggerate that point. The obstacles are questions of judgment. So far as the powers are concerned, they are there. We have not chosen to use them as vigorously in this inflationary period as some might think we should have, because we believed the consequences would be unsatisfactory, but the powers are there so it does remain a question of judgment and opinion.

Q. Is your statement that the consequences would have been too severe, not tantamount to saying that although you may have the powers on paper you are unable to exercise them?—A. No, because I should, and I did in my statement, go beyond that—that the consequences would be very severe and the results very little because of the fact that a substantial rise in prices was being communicated to us from abroad. There was no way of fighting that—no practical way. If that had not been so, then one would have tolerated quite severe consequences from the exercise of the powers which the bank possesses, if you could have achieved any real results in preserving the value of the dollar. But to burn down the house for the hind leg of the pig did not seem worth while.

Q. Then that in effect is saying our currency level is determined outside this country?—A. Only on one side. For example, it is very difficult for any part of the world, outside of the totalitarian states, to avoid having prices increased if the American price level goes up. That is true as a world-wide situation, so that while an economist—and I am not one—might argue about this, and have some qualifications, I think it is broadly true that the U.S. is so big and so rich that their price level is about the minimum for anyone. But that is by no means the maximum, as the tables which were put on the record today indicate. The maximum can be any figure one cares to dream up.

Q. Did you not tell us on previous occasions when you consulted them that you would not expect them to co-operate if they disagreed with the policy that you were advocating?—A. If they felt that the policy was an unreasonable one and not in the public interest, naturally they would state their views. All I can say is that I hope the central bank will have the wit not to make such propositions.

Q. No, but the point I want to get is this, Mr. Towers. Does your statement that you would not expect them to co-operate indicate that the chartered banks have the power to offset any action you might want to take as the Bank of Canada?—A. No, but there are times when co-operation such as was afforded in 1951 is a very useful supplement to the powers and perhaps for a time means the indirect powers do not have to be used quite so strenuously. But it would always be open to the central bank, in the situation which you mention, to say all right, we will have to rely on our ordinary indirect powers and go to it.

Q. And would you consider that those would be effective in the face of a determination on the part of the chartered banks not to co-operate?—A. If one pursues them persistently, yes.

The CHAIRMAN: That was a good finish, indicating that we the people are in control.

Mr. TUCKER: There is one thing, Mr. Chairman.

The CHAIRMAN: Don't spoil it now!

Mr. TUCKER: Mr. Towers suggested that if we have a period like the early thirties the possibility of effective monetary action might be very small. I just want to ask him this question whether the setting up of central banks in practically all the countries of the world would not enable monetary action through the central banks of the various countries of the world to accomplish more than he suggested, an improvement of 10 per cent?

The WITNESS: Yes, that was rather a different thing. I meant had other circumstances been the same—international circumstances—in 1930, central bank here could have made some improvement but not a great one, and I am glad you brought the other subject up because I think it does hold out quite considerable hope. Indeed, the association of a number of countries in the international monetary fund and all the encouragement that gives for collaboration, interchange of views between governments, as well as central banks, added to the terror which all governments have of deflation, and makes me quite hopeful in that respect.

Mr. TUCKER: I was thinking your statement might be taken as an absolute one under the present circumstances.

The CHAIRMAN: Thank you very much, gentlemen. I would like you to organize your thinking in order that we might finish with Mr. Towers on Thursday. We will then begin questioning Mr. Taylor who has been sitting in the wings and waiting.

APPENDIX “A”

EVIDENCE

March 16, 1954.

11:00 a.m.

The CHAIRMAN: Gentlemen, I am placing on record this morning a number of exhibits from the Bank of Canada and from Mr. Elderkin, the Inspector-General. I am doing this in order to make them available to you for Thursday when Mr. Towers will appear before the committee. I believe you will find these exhibits very useful in your deliberations.

The first one is entitled as follows:

Bank of Canada

Comparative Statement of Income, Operating Expenses and Distribution of Earnings for the years 1944 to 1953 inclusive

Number of Bank of Canada Staff at Year-Ends 1944 to 1953 inclusive

Those are filed by the Bank of Canada. And then we have the following exhibits filed by the Inspector General:

BILL 338—EXHIBITS

1. Summary showing fate of all banks which were active at or incorporated since July 1, 1867.

2. Location of shareholders and shares of the chartered banks and analysis of shareholdings at fiscal year ends 1953.

3. Statement of shareholders equity—capital, rest and undivided profits of the chartered banks as at fiscal year ends in 1953.

4. Net profits, income taxes and dividends of chartered banks.

5. Interest rates on personal savings deposits in Canada paid by the chartered banks, January 1, 1924 to December 31, 1953.

6. Classification of deposits in Canadian currency by the public in Canada, 1944 to 1953.

7. Classification of loans in Canada, 1944 to 1953.

8. Rates of dividends on paid-up capital and (in brackets) on shareholders equity, 1944 to 1953.

9. Statement of earnings, expenses and other information of the chartered banks for the fiscal years 1944 to 1953 and for the average of 15 fiscal years ending in 1944 to 1953.

10. Statement of assets and liabilities of the chartered banks as at December 31, 1944 to 1953.

11. Branches of chartered banks at December 31, 1953.

And following which will Mr. Elderkin now please hand to Mr. Gratrix one copy of each of the foregoing exhibits: No. 1, the Summary; No. 2, the Location of Shareholders; No. 3, the Statement of Shareholders' Equity; No. 4, the Net Profits; No. 5, Interest Rates; No. 6, Classification; No. 7, Classification of Loans; No. 8, Rates of Dividends; No. 9, Statement of Earnings; No. 10, Statement of Assets; and No. 11, Branches.

Mr. QUELCH: These exhibits will be printed in the record, will they not?

The CHAIRMAN: Yes. We hope to make them available to you by Thursday.

Mr. Gratrix is also preparing for all the members of the committee the annual statements of the chartered banks, and you will have those provided for you some time today. They will be for the year 1953.

Mr. FRASER (*Peterborough*): Will that include Barclays?

The CHAIRMAN: Yes.

Mr. CANNON: Will you have individual copies of all these exhibits for each member of the committee?

The CHAIRMAN: These exhibits will appear in the record and should be available to you by Thursday. That is the purpose of putting them on record today.

The committee then proceeded to other matters referred.

EXHIBIT No. 1

APPENDIX "A"

BANK OF CANADA

COMPARATIVE STATEMENT OF INCOME, OPERATING EXPENSES AND
DISTRIBUTION OF EARNINGS FOR THE YEARS 1944 TO 1948 INCLUSIVE

	1944	1945	1946	1947 ⁽¹⁾	1948
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
INCOME					
Interest and Discount.....	24,561,037 68	27,321,447 11	25,691,856 11	25,123,091 63	26,145,684 07
All Other Income.....	11,923 06	3,442 85	6,199 54	16,270 14	25,440 46
	24,572,960 72	27,324,889 96	25,685,656 57	25,139,361 77	26,171,124 53
OPERATING EXPENSES					
Salaries.....	1,775,619 26	1,767,868 57	1,889,500 35	2,406,118 71	2,798,787 28
Unemployment Insurance, Group Insurance and Con- tributions to Staff Pension and Retirement Trust Funds	162,679 64	174,276 43	733,196 26	562,803 59	568,272 51
Cafeteria and Lunch Room Expense.....					
Travelling Expense.....	16,169 13	24,528 28	33,790 11	55,559 71	68,363 09
Directors' Fees and Expenses.....	7,150 00	7,250 00	6,100 00	5,600 00	5,800 00
Cost of R.C.M.P. Guards and Electric Protection.....	37,903 88	45,069 67	29,093 01	38,604 21	38,363 92
Cost of Bank Notes (including Postage and Express Charges on Bank Note Shipments)...	767,618 77	795,714 94	1,005,434 39	1,177,782 42	1,463,479 72
Premises and Equipment (ex- cluding taxes) less Rentals Received.....	210,127 61	205,594 77	191,190 40	229,132 99	234,899 65
Stationery and Printing.....	88,888 53	74,123 47	66,416 69	87,945 45	84,559 19
Postage and Express (excluding cost of shipping Bank Notes)	71,402 69	85,933 25	98,975 36	49,659 16	52,330 90
Telegrams and Telephones....	36,416 28	36,181 25	36,426 08	39,242 43	38,160 14
Insurance (registered mail, fidelity, hold-up, fire and other).....	15,368 63	15,737 01	22,502 44	22,131 34	26,649 54
Taxes (including municipal, business and stamp).....	104,257 76	101,663 54	111,870 95	165,629 41	196,249 18
Auditors' Fees and Expenses..	19,044 97	21,689 00	24,930 99	24,147 78	23,684 65
Interest Paid on Unclaimed Balances.....		22,050 18	22,907 70	28,574 03	29,437 05
All Other Expenses.....	44,699 18	42,864 16	42,432 00	57,120 53	69,601 74
	3,357,346 33	3,420,544 52	4,314,766 73	4,950,051 76	5,698,638 56
DISTRIBUTION OF EARNINGS					
Current Operating Expenses..	3,357,346 33	3,420,544 52	4,314,766 73	4,950,051 76	5,698,638 56
Transferred to Reserve against Investments.....	750,000 00	1,000,000 00	.....	1,000,000 00	1,000,000 00
Written Off to Depreciation of Buildings and Equipment...	152,954 71	137,424 52	134,694 88	135,984 58	140,338 77
Dividend Paid to Receiver General of Canada.....	225,000 00	225,000 00	225,000 00	225,000 00	225,000 00
	4,485,301 04	4,782,969 04	4,674,461 61	6,311,036 34	7,063,977 33
Credited to Rest Fund.....	2,008,765 97	.....	.....	.....	.....
Paid to Receiver General of Canada.....	18,078,893 71	22,541,920 92	21,011,194 96	18,828,325 43	19,107,147 20
Total Gross Income..	24,572,960 72	27,324,889 96	25,685,656 57	25,139,361 77	26,171,124 53

(1) Principal expenses of Foreign Exchange Control administration assumed by Bank of Canada January 1, 1947, under provisions of The Foreign Exchange Control Act.

EXHIBIT No. 1—Conc.

BANK OF CANADA

COMPARATIVE STATEMENT OF INCOME, OPERATING EXPENSES AND
DISTRIBUTION OF EARNINGS FOR THE YEARS 1949 TO 1953 INCLUSIVE

	1949	1950	1951	1952	1953
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
INCOME					
Interest and Discount.....	27,907,632 24	27,055,325 54	35,297,178 84	43,889,266 64	54,101,643 20
All Other Income.....	8,941 37	25,151 50	56,764 61	203,379 27	87,450 93
	27,916,573 61	27,080,477 10	35,353,943 45	44,092,645 91	54,189,094 13
OPERATING EXPENSES					
Salaries.....	3,060,453 89	3,210,771 67	3,301,706 68	2,902,044 07	2,376,532 76
Unemployment Insurance, Group Insurance and Con- tributions to Staff Pension and Retirement Trust Funds	667,899 62	658,471 75	446,886 24	384,980 96	338,359 67
Cafeteria and Lunch Room Expense.....		6,928 99	2,635 16	32,552 51	61,082 22
Travelling Expense.....	71,057 48	74,834 44	79,273 36	74,756 41	87,739 00
Directors' Fees and Expenses	5,800 00	6,750 00	6,700 00	7,100 00	10,050 00
Cost of R.C.M.P. Guards and Electric Protection.....	45,574 83	59,102 59	70,812 06	72,906 21	68,095 41
Cost of Bank Notes (including Postage and Express Charges on Bank Note Shipments)...	1,860,309 99	1,968,346 34	2,416,023 12	2,722,883 81	2,326,178 37
Premises and Equipment (ex- cluding taxes) less Rentals Received.....	267,939 75	258,572 49	263,286 13	353,235 05	256,187 59
Stationery and Printing.....	98,069 59	115,659 36	112,886 91	91,601 40	91,958 76
Postage and Express (excluding cost of shipping Bank Notes)	48,675 57	46,397 07	43,632 19	50,745 39	48,320 20
Telegrams and Telephones....	43,198 66	53,285 20	55,049 35	86,170 29	88,077 51
Insurance (registered mail, fidelity, hold-up, fire and other).....	37,968 42	42,568 98	44,798 66	49,805 48	49,707 10
Taxes (including municipal, business and stamp).....	205,378 43	276,415 16	332,228 04	293,764 89	315,633 21
Auditors' Fees and Expenses..	23,365 10	27,721 06	29,277 48	28,195 92	28,800 00
Interest Paid on Unclaimed Balances.....	30,843 23	32,550 21	33,436 48	34,551 44	35,990 61
All Other Expenses.....	84,082 84	84,269 21	80,495 07	66,880 07	70,395 57
	6,550,617 40	6,922,644 52	7,319,126 93	7,252,173 90	6,253,107 98
DISTRIBUTION OF EARNINGS					
Current Operating Expenses..	6,550,617 40	6,922,644 52	7,319,126 93	7,252,173 90	6,253,107 98
Transferred to Reserve against Investments.....			3,500,000 00	7,500,000 00	3,500,000 00
Written Off to Depreciation of Buildings and Equipment..	698,578 10	270,284 17	291,799 08	323,761 59	343,178 93
Dividend Paid to Receiver General of Canada.....	225,000 00	225,000 00	225,000 00	225,000 00	225,000 00
	7,474,195 50	7,417,928 69	11,335,926 01	15,300,935 49	10,321,286 91
Paid to Receiver General of Canada.....	20,442,378 11	19,662,548 41	24,018,017 44	28,791,710 42	43,867,807 22
Total Gross Income..	27,916,573 61	27,080,477 10	35,353,943 45	44,092,645 91	54,189,094 13

EXHIBIT No. 2

BANK OF CANADA
STAFF—DECEMBER 31

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
Currency Division.....	85	94	101	105	105	121	122	109	108	79
Public Debt Division.....	753	737	572	455	447	435	426	354	284	289
Foreign Exchange Control.....				420	472	466	403	351		
Other Head Office Departments.....	146	176	181	168	184	192	202	199	220	210
Agencies.....	141	159	167	168	174	182	189	173	152	159
Total.....	1,125	1,166	1,021	1,316	1,382	1,396	1,342	1,186	764	737
Total Excluding Foreign Exchange Control.....	1,125	1,166	1,021	896	910	930	939	835	764	737

EXHIBIT No. 3

APPENDIX "B"

SUMMARY SHOWING FATE OF ALL BANKS WHICH WERE ACTIVE AT OR
INCORPORATED SINCE JULY 1, 1867

(1) Charters lapsed without use.....	38
(2) Banks which operated but were later absorbed by other banks.....	35
(3) Banks which operated but were later placed in liquidation.....	26
(4) Active at this date.....	11
	<hr/> 110

(2) BANKS ABSORBED—

PURCHASING BANK	YEAR (a)	BANK ABSORBED
Bank of Montreal.....	1903	Exchange Bank of Yarmouth
	1905	Peoples Bank of Halifax
	1907	Peoples Bank of New Brunswick
	1918	The Bank of British North America
	1922	The Merchants Bank of Canada
	(b) 1868	Commercial Bank of Canada
	1925	The Molsos Bank
The Bank of Nova Scotia.....	1883	Union Bank of Prince Edward Island
	1913	Bank of New Brunswick
	(b) 1901	The Summerside Bank
	1914	The Metropolitan Bank
	1919	The Bank of Ottawa
The Canadian Bank of Commerce.....	1870	The Gore Bank
	1900	The Bank of British Columbia
	1903	Halifax Banking Company
	1906	Merchants Bank of Prince Edward Island
	1912	Eastern Townships Bank
	1923	Bank of Hamilton
	1928	The Standard Bank of Canada
	(b) 1909	Western Bank of Canada
	(b) 1924	The Sterling Bank of Canada
The Royal Bank of Canada.....	1910	The Union Bank of Halifax
	(b) 1902	The Commercial Bank of Windsor
	1912	The Traders Bank of Canada
	1917	The Quebec Bank
	1918	The Northern Crown Bank
	(b) 1908	The Crown Bank of Canada
	1925	Union Bank of Canada
	(b) 1911	United Empire Bank
Banque d'Hochelaga(c).....	1924	La Banque Nationale
Imperial Bank of Canada.....	1875	Niagara District Bank
	1931	The Weyburn Security Bank
Consolidated Bank of Canada(d).....	1876	City Bank
	1876	Royal Canadian Bank
The Home Bank of Canada (d).....	1913	La Banque Internationale du Canada

(a) Dates since 1900 are those of authorizing Order in Council.

(b) Previously absorbed by prior bank in listing.

(c) Name changed to Banque Canadienne Nationale—1924.

(d) Since failed.

EXHIBIT No. 3—*Conc.*

(3) BANKS PLACED IN LIQUIDATION

Charter Granted	Cessation of Operations	NAME OF BANK
1834	1868	Commercial Bank of N.B.
1872	1873	Bank of Acadia
1871	1876	Metropolitan Bank of Montreal
1865	1879	Mechanics Bank
1871	1879	Bank of Liverpool
1875	1879	The Consolidated Bank of Canada
1872	1879	Stadacona Bank
1856	1881	Bank of Prince Edward Island
1871	1883	Exchange Bank of Canada
1872	1887	The Maritime Bank of Dominion of Canada
1873	1887	Pictou Bank
1883	1887	Bank of London in Canada
1883	1887	The Central Bank of Canada
1874	1888	Federal Bank of Canada
1884	1893	Commercial Bank of Manitoba
1844	1895	La Banque du Peuple
1872	1899	La Banque Ville Marie
1859	1905	Bank of Yarmouth
1857	1906	Ontario Bank
1901	1908	The Sovereign Bank of Canada
1873	1908	La Banque de St. Jean
1873	1908	La Banque de St. Hyacinthe
1836	1910	The St. Stephens Bank
1904	1910	The Farmers Bank of Canada
1908	1914	The Bank of Vancouver
1903	1923	The Home Bank of Canada

(4) BANKS ACTIVE AT DATE

Charter Granted	NAME OF BANK
1822	Bank of Montreal
1832	The Bank of Nova Scotia
1855	The Bank of Toronto
1861	La Banque Provinciale du Canada
1867	The Canadian Bank of Commerce
1869	The Royal Bank of Canada
1869	The Dominion Bank
1873	Banque Canadienne Nationale
1873	Imperial Bank of Canada
1929	Barclays Bank (Canada)
1953	The Mercantile Bank of Canada

EXHIBIT No. 4

LOCATION OF SHAREHOLDERS OF CHARTERED BANKS

Country	December 31, 1943		Fiscal years ends, 1953	
	Number	Percentage	Number	Percentage
Canada.....	36,534	71.37	52,121	76.20
Elsewhere in British Commonwealth.....	8,931	17.45	11,929	17.44
United States and Possessions.....	4,855	9.48	3,739	5.47
All other contries.....	870	1.70	608	.89
	51,190	100.00	68,397	100.00

LOCATION OF SHARES OF CHARTERED BANKS

Country	December 31, 1943		Fiscal year ends, 1953	
	Number (a)	Percentage	Number (b)	Percentage
Canada.....	9,897	68.02	10,995	72.81
Elsewhere in British Commonwealth.....	2,784	19.13	2,953	19.56
United States and Possessions.....	1,543	10.61	1,005	6.66
All other countries.....	326	2.24	147	.97
	14,550	100.00	15,100	100.00

NOTE (a) At December 31, 1943 the shares had a par value of \$100 each. The par value was changed in 1944 to \$10 each and for purposes of comparison are here converted ten for one and expressed in thousands.

(b) Expressed in thousands.

SHAREHOLDINGS OF CHARTERED BANKS AT FISCAL YEAR ENDS, 1953

Number of shareholders holding:—	Shareholders	Percentage
(1) Less than 500 shares.....	62,330	91.13
(2) 500 shares to 999 shares.....	3,477	5.08
(3) 1,000 shares and over.....	2,590	3.79
	68,397	100.00

EXHIBIT No. 5

STATEMENT OF SHAREHOLDERS EQUITY

CAPITAL, REST AND UNDIVIDED PROFITS OF THE CHARTERED BANKS AS AT
FISCAL YEAR ENDS IN 1953

(in thousands of dollars)

Bank	Capital Paid-up	Rest or Reserve Fund	Profit and Loss Account	Total Share- holders Equity	Source of Funds	
					Issue of Capital Stock	Profits
Bank of Montreal.....	36,000	60,000	706	96,706	57,039	39,667
The Bank of Nova Scotia.....	15,000	33,000	1,063	49,063	38,619	10,444
The Bank of Toronto.....	6,000	16,000	321	22,321	10,075	12,246
La Banque Provinciale du Canada....	5,000	3,000	180	8,180	5,750	2,430
The Canadian Bank of Commerce....	30,000	38,000	843	68,843	48,894	19,949
The Royal Bank of Canada.....	35,000	70,000	1,515	106,515	65,734	41,141
The Dominion Bank.....	7,000	12,000	642	19,642	12,900	6,742
Banque Canadienne Nationale.....	7,000	8,000	426	15,426	10,659	4,767
Imperial Bank of Canada.....	7,000	12,000	567	19,567	12,181	7,386
Barclays Bank (Canada).....	3,000	3,000	211	6,211	6,000	211
The Mercantile Bank of Canada.....	1,500	400	nil (A)	1,900	1,900	nil
Total.....	152,500	255,400	6,474	414,374	269,391	144,983
Percentage.....	36.80%	61.64%	1.56%	100.00%	65.01%	34.99%

NOTE (A) Commenced business December 1953.

EXHIBIT No. 6

NET PROFITS, INCOME TAXES AND DIVIDENDS OF CHARTERED BANKS FOR FISCAL YEARS

(Amounts in thousands of dollars)

Bank	Year	(1) Net Profits	(2) Percentage of Net profits to Paid-up Capital	(3) Percentage of Net profits to Share- holders Equity	(4) Provision for Income Taxes	(5) Dividends Paid
		\$	%	%	\$	\$
Bank of Montreal.....	1953	7,043	19.56	7.28	6,650	5,040
The Bank of Nova Scotia.....		3,011	20.08	6.14	2,750	2,700
The Bank of Toronto.....		1,303	21.72	5.84	1,263	1,020
The Provincial Bank of Canada.....		426	8.52	5.21	354	332
The Canadian Bank of Commerce.....		5,789	19.30	8.41	5,558	3,600
The Royal Bank of Canada.....		8,635	24.67	8.11	8,952	4,900
The Dominion Bank.....		1,394	19.91	7.16	1,430	910
Banque Canadienne Nationale.....		1,365	19.50	8.85	1,220	840
Imperial Bank of Canada.....		1,402	20.03	7.17	1,786	1,050
Barclays Bank (Canada).....		18	0.60	0.29	4	nil
All banks.....	1953	30,386	20.12	7.37	29,967	20,392
	1952	24,478	16.46	6.42	23,345	18,627
	1951	22,759	15.35	6.08	18,762	17,318
	1950	23,442	16.11	6.50	14,064	15,640
	1949	21,860	15.02	6.19	14,542	15,120
	1948	20,770	14.27	6.00	11,914	14,895
	1947	19,462	13.38	5.74	14,138	14,163
	1946	16,501	11.34	4.96	13,930	12,635
	1945	12,556	8.63	4.20	11,142	9,600
	1944	11,379	7.82	3.85	11,856	9,400
Average.....	1944-1953	20,359	13.89	5.83	16,366	14,779

NOTES TO COLUMNS

(1) Net profits after appropriations to contingency reserves, provision for depreciation and for income taxes.

(3) Shareholders Equity consists of paid-up capital, rest account and undivided profits.

(4) Includes in some cases, provincial and foreign income taxes.

EXHIBIT No. 7

THE CHARTERED BANKS OF CANADA

INTEREST RATES ON PERSONAL SAVINGS DEPOSITS IN CANADA

From January 1st, 1924 to December 31st, 1953

January 1, 1924—3% per annum on minimum monthly balance.

May 1, 1933—2½% per annum on minimum monthly balance.

November 1, 1934—2% per annum on minimum monthly balance.

June 1, 1936—1½% per annum on minimum monthly balance.

March 1, 1939—1½% per annum on minimum quarterly balance.

December 1, 1953—2% per annum on minimum quarterly balance.

NOTE (a) The rate of 3% per annum was in effect for many years prior to 1924; (b) Interest is added to accounts half-yearly.

EXHIBIT No. 8

THE CHARTERED BANKS OF CANADA
CLASSIFICATION OF DEPOSITS IN CANADIAN CURRENCY BY THE PUBLIC IN CANADA
AS AT OCTOBER 31, 1944 TO 1947 AND SEPTEMBER 30, 1948 TO 1953

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
DEPOSIT PAYABLE ON DEMAND										
NUMBER OF ACCOUNTS, IN THOUSANDS										
1. Deposits of \$1,000 or less.....	602	592	649	687	727	767	824	853	873	911
2. Deposits over \$1,000 to \$5,000.....	120	133	142	147	163	170	158	165	183	195
3. Deposits over \$5,000 to \$25,000.....	29	35	37	38	44	48	48	50	57	60
4. Deposits over \$25,000 to \$100,000.....	6	7	8	7	8	9	10	10	12	13
5. Deposits in excess of \$100,000.....	2	2	2	2	3	3	3	3	4	4
	759	769	838	881	945	997	1,043	1,081	1,129	1,183
DEPOSITS PAYABLE AFTER NOTICE										
NUMBER OF ACCOUNTS, IN THOUSANDS										
1. Deposits of \$1,000 or less.....	4,588	4,969	5,291	5,517	5,719	5,962	6,170	6,416	6,666	6,894
2. Deposits over \$1,000 to \$5,000.....	454	584	690	725	778	828	817	821	880	957
3. Deposits over \$5,000 to \$25,000.....	47	60	77	89	103	121	131	136	146	164
4. Deposits over \$25,000 to \$100,000.....	3	3	4	5	5	6	7	7	7	7
5. Deposits in excess of \$100,000.....	1	1	1	1	1	1	1	1	1	1
	5,093	5,617	6,063	6,337	6,606	6,918	7,126	7,381	7,700	8,023
DEPOSITS PAYABLE ON DEMAND										
AMOUNTS IN MILLIONS OF DOLLARS										
1. Deposits of \$1,000 or less.....	\$ 142.1	166.3	165.6	169.6	180.4	185.9	179.5	187.2	197.2	208.3
2. Deposits over \$1,000 to \$5,000.....	259.0	289.0	307.2	321.7	335.8	373.3	346.7	363.4	405.3	431.6
3. Deposits over \$5,000 to \$25,000.....	295.8	344.0	372.3	386.9	434.8	477.0	478.1	501.3	578.7	608.4
4. Deposits over \$25,000 to \$100,000.....	268.1	307.2	350.9	344.1	393.6	425.2	456.1	475.7	550.9	583.0
5. Deposits in excess of \$100,000.....	1,145.4	1,159.8	1,097.7	945.9	1,032.6	1,143.1	1,378.8	1,275.9	1,470.5	1,525.7
6. Adjustments (A).....	34.1	30.7	22.0	— 4.9	— 37.1	—100.4	—130.5	—152.4	—176.6	—207.1
	\$2,144.5	2,297.0	2,315.7	2,163.3	2,360.1	2,504.1	2,708.7	2,651.1	3,026.0	3,149.9

DEPOSITS PAYABLE AFTER NOTICE
AMOUNTS IN MILLIONS OF DOLLARS

1. Deposits of \$1,000 or less.....	\$ 752.3	862.3	901.0	922.0	953.1	997.5	993.9	1,021.4	1,091.5	1,139.9
2. Deposits over \$1,000 to \$5,000.....	880.2	1,142.9	1,373.3	1,478.4	1,605.1	1,732.2	1,729.5	1,737.6	1,866.3	2,036.7
3. Deposits over \$5,000 to \$25,000.....	405.1	497.0	645.3	752.6	868.0	1,017.3	1,098.8	1,143.7	1,223.4	1,370.0
4. Deposits over \$25,000 to \$100,000.....	122.0	133.4	180.5	203.4	228.1	249.9	285.9	289.0	295.3	311.3
5. Deposits in excess of \$100,000.....	322.7	347.8	365.7	440.7	387.1	405.4	462.7	393.1	415.0	357.5
6. Adjustments (A).....	6.6	8.2	10.9	8.8	7.1	9.2	11.1	9.9	9.4	10.6
	\$2,488.9	2,991.6	3,476.7	3,805.9	4,048.5	4,411.5	4,581.9	4,594.7	4,900.9	5,226.0

(A) Drafts issued, certified cheques, items in transit, etc.

EXHIBIT No. 9

THE CHARTERED BANKS OF CANADA

CLASSIFICATION OF LOANS IN CANADA

AS AT OCTOBER 31, 1944 TO 1947 AND SEPTEMBER 30, 1948 TO 1953

(Amounts in millions of dollars)

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. GOVERNMENT AND OTHER PUBLIC SERVICES										
(1) Provincial governments.....	5.4	11.5	12.1	20.6	20.5	40.4	23.6	24.9	6.3	10.6
(2) Municipal governments and school districts.....	33.2	20.2	26.5	43.9	67.6	76.1	91.5	114.5	102.4	109.4
(3) Religious, educational, health and welfare institutions.....	6.2	6.4	7.8	13.5	23.8	26.5	33.1	45.9	43.3	47.1
TOTAL GOVERNMENT AND OTHER PUBLIC SERVICES..	44.8	38.1	46.4	78.0	111.9	143.0	148.2	185.3	152.0	167.1
2. FINANCIAL										
(1) Investment dealers and brokers to the extent payable on call or within thirty days.....	56.8	130.6	97.8	83.9	75.4	102.4	101.2	107.1	135.2	110.1
(2) Trust, loan, mortgage, investment and insurance companies and other financial institutions....	9.2	22.9	35.4	38.0	41.4	57.5	86.0	91.7	107.5	122.6
TOTAL FINANCIAL.....	66.0	153.5	133.2	121.9	116.8	159.9	187.2	198.8	242.7	232.7
PERSONAL										
(1) Individuals, for other than business purposes on the security of marketable stocks and bonds....	125.0	172.5	220.8	225.8	225.1	234.6	243.4	255.6	274.3	300.2
(2) Individuals, for other than business purposes, not elsewhere classified.....	60.3	72.6	111.6	133.6	150.4	167.6	218.2	211.3	228.0	298.2
TOTAL PERSONAL.....	185.3	245.1	332.4	359.4	375.5	402.2	461.6	466.9	502.3	598.4
4. AGRICULTURAL, INDUSTRIAL AND COMMERCIAL										
(1) Farmers.....	57.8	71.4	109.9	147.3	161.9	184.4	255.8	298.9	334.2	354.0
(2) Industry										
(a) Chemical and rubber products.....			5.8	14.4	27.0	25.3	29.2	54.3	30.3	43.4
(b) Electrical apparatus and supplies.....			3.1	14.5	12.6	9.2	14.3	41.4	22.9	41.9

(c) Food, beverages and tobacco.....	.....	74.2	105.1	130.9	117.0	122.5	172.0	168.4	162.8
(d) Forest products.....	.....	74.7	108.4	104.7	102.6	76.0	115.7	136.5	139.8
(e) Furniture.....	.....	7.6	12.3	12.7	13.1	16.2	19.8	14.4	17.6
(f) Iron and steel products.....	.....	46.4	88.6	73.2	75.2	53.4	97.5	95.6	124.5
(g) Mining and mine products.....	.....	13.7	17.0	18.9	21.9	26.0	33.4	48.0	62.0
(h) Petroleum and products.....	.....	3.4	9.0	6.4	10.6	22.9	31.0	32.8	55.6
(i) Textiles, leather and clothing.....	.....	73.3	106.7	118.5	134.9	138.9	213.4	158.0	199.5
(j) Transportation equipment.....	.....	11.6	17.6	21.1	25.6	30.1	46.4	52.8	52.8
(k) Other products.....	.....	29.8	40.3	35.8	42.5	55.2	63.1	53.1	58.9
	275.6	343.6	533.9	561.8	577.9	584.7	888.0	812.8	958.8
(3) Public utilities, transportation and communication companies.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
(4) Construction contractors.....	6.3	15.9	42.5	36.3	34.5	53.9	87.9	67.5	61.7
(5) Grain dealers and exporters.....	38.5	71.7	93.9	103.6	113.3	122.7	151.8	158.7	175.0
(6) Instalment finance companies.....	209.3	67.7	67.9	103.3	190.1	93.1	98.6	186.5	310.7
(7) Merchandisers.....	18.4	28.3	65.7	53.1	74.6	96.5	100.8	149.4	249.3
(8) Other business.....	125.4	244.8	359.9	387.4	415.5	436.1	542.9	484.0	595.8
	22.2	45.0	67.8	89.1	113.0	135.5	133.8	139.0	179.4
TOTAL AGRICULTURAL, INDUSTRIAL AND COMMERCIAL.....	753.5	926.9	1,378.9	1,496.5	1,703.3	1,778.3	2,302.7	2,332.1	2,884.7
TOTAL LOANS IN CANADA.....	1,049.6	1,438.9	1,938.2	2,100.7	2,408.4	2,575.3	3,153.7	3,259.1	3,882.9

NOTE—The form of return was revised in 1950 and classifications prior to that year are estimated in some cases. There is not sufficient data available on which to base estimates of the Industry classifications prior to 1946.

EXHIBIT No. 10
THE CHARTERED BANKS OF CANADA
RATES OF DIVIDENDS ON PAID-UP CAPITAL AND (IN BRACKETS) ON SHAREHOLDERS EQUITY
FOR THE FISCAL YEARS 1944 TO 1953

	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
	%	%	%	%	%	%	%	%	%	%
Bank of Montreal.....	6 (2·8)	6 (2·8)	9½ (4·3)	10 (4·4)	10 (4·3)	10 (4·2)	10 (4·1)	12 (4·9)	12½ (5·0)	14 (5·2)
The Bank of Nova Scotia.....	10 (2·7)	10 (3·2)	11½ (3·7)	14 (4·4)	14 (4·4)	15 (4·6)	16 (4·9)	16 (4·9)	16 (4·9)	18 (5·5)
The Bank of Toronto.....	10 (3·1)	10 (3·0)	12 (3·5)	12 (3·5)	14 (4·0)	14 (3·9)	16 (4·4)	16 (3·6)	16 (4·4)	17 (4·6)
The Provincial Bank of Canada.....	5 (3·8)	5 (3·8)	5½ (3·3)	7 (4·4)	7 (4·4)	7 (4·3)	7 (4·3)	7 (4·2)	7 (4·1)	7 (4·1)
The Canadian Bank of Commerce..	6 (3·5)	6 (3·5)	7½ (3·6)	10 (4·8)	10 (4·8)	10 (4·7)	10 (4·6)	10 (4·6)	12 (5·4)	12 (5·2)
The Royal Bank of Canada.....	6 (3·5)	6 (3·5)	8 (3·7)	8½ (3·8)	10 (4·3)	10 (4·2)	10 (4·1)	12 (4·8)	12½ (4·8)	14 (4·6)
The Dominion Bank.....	8 (3·7)	8 (3·7)	9½ (3·8)	10 (4·0)	10 (3·9)	10 (3·8)	12 (4·5)	12 (4·5)	12 (4·4)	13 (4·6)
Banque Canadienne Nationale.....	6 (3·4)	6 (3·4)	7 (3·4)	7¼ (3·5)	8 (3·9)	8 (3·8)	8 (3·8)	10 (4·7)	10 (4·7)	12 (5·4)
Imperial Bank of Canada.....	8 (3·5)	8 (3·5)	10 (4·3)	10 (3·8)	10½ (4·0)	12 (4·5)	14 (5·2)	14 (4·4)	14 (5·1)	15 (5·4)
Barclays Bank (Canada).....	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
All banks.....	— (3·2)	— (3·3)	— (3·8)	— (4·2)	— (4·3)	— (4·3)	— (4·3)	— (4·6)	— (4·9)	— (4·9)

NOTE—Shareholders equity consists of paid-up capital, rest account and undivided profits at fiscal year ends of the banks.

STATEMENT OF EARNINGS, EXPENSES AND OTHER INFORMATION OF THE CHARTERED BANKS
FOR THE FISCAL YEARS OF THE BANKS

(millions of dollars)

BANKING AND COMMERCE

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	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
CURRENT OPERATING EARNINGS										
1. Interest and discount on loans.....	57.3	60.2	70.7	90.1	106.5	115.7	125.0	155.7	166.3	191.6
2. Interest, dividends and trading profits on securities..	60.0	70.9	89.1	92.8	89.7	99.6	101.3	91.6	100.8	111.4
3. Exchange, commission, service charges and other current operating earnings.....	36.7	40.6	43.5	46.4	47.2	52.7	55.8	68.5	70.0	75.5
4. Total current operating earnings.....	154.0	171.7	203.3	229.3	243.4	268.0	282.1	315.8	337.1	378.5
CURRENT OPERATING EXPENSES										
5. Interest on deposits.....	28.7	34.8	41.1	46.6	50.9	55.0	57.9	58.3	61.5	65.7
6. Remuneration to employees.....	51.8	56.4	65.4	78.9	87.2	95.2	102.2	117.2	125.3	133.4
7. Provision for taxes.....	15.0	15.0	19.2	21.4	19.5	21.5	20.7	27.2	33.4	37.7
8. Contributions to pension funds.....	3.6	3.8	8.0	9.5	10.6	11.1	11.6	12.3	12.6	13.0
9. Provision for depreciation of bank premises.....	2.3	3.2	3.4	3.5	3.6	4.2	6.7	7.5	7.0	7.1
10. All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	23.4	23.8	26.9	30.5	34.5	37.0	37.8	43.7	45.5	48.9
11. Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	124.8	137.0	164.0	190.4	206.3	224.0	236.9	266.2	285.3	305.8
SUPPLEMENTARY INFORMATION										
12. Dividends to shareholders.....	9.4	9.6	12.6	14.2	14.9	15.1	15.6	17.3	18.6	20.4
13. Net amount of current operating earnings available for losses or specific provision for losses and for general contingencies.....	19.8	25.1	26.7	24.7	22.2	28.9	29.6	32.3	33.2	52.3
14. Net amount of capital profits, including non-recurring profits.....	1.3	-0.5	0.3	-0.2	-0.8	-1.2	-1.4	0.9	-0.3	-0.5
15. Average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen years ending with the year to which this return relates....	13.4	12.2	9.4	7.7	6.4	5.3	5.1	7.8	9.4	7.8

STATEMENT OF EARNINGS AND EXPENSES AND OTHER INFORMATION OF THE CHARTERED BANKS
FOR THE AVERAGE OF FIFTEEN FISCAL YEARS OF THE BANKS
(millions of dollars)

	1930 — 1944	1931 — 1945	1932 — 1946	1933 — 1947	1934 — 1948	1935 — 1949	1936 — 1950	1937 — 1951	1938 — 1952	1939 — 1953
CURRENT OPERATING EARNINGS										
1. Interest and discount on loans.....	73.2	68.4	65.9	65.4	67.1	69.8	73.7	80.2	87.5	96.3
2. Interest, dividends and trading profits on securities.....	39.8	43.0	47.0	51.0	54.5	58.7	62.8	66.1	70.1	75.0
3. Exchange, commission, service charges and other current operating earnings.....	27.6	28.5	29.6	30.9	32.0	34.1	35.8	38.9	42.1	45.6
4. Total current operating earnings.....	140.6	139.9	142.5	147.3	153.6	162.6	172.3	185.2	199.7	216.9
CURRENT OPERATING EXPENSES										
5. Interest on deposits.....	33.5	31.8	30.9	30.7	31.0	32.0	33.6	35.7	38.2	41.0
6. Remuneration to employees.....	42.7	43.2	44.6	47.1	50.3	54.2	58.5	63.8	69.6	75.8
7. Provision for taxes.....	10.6	11.0	11.7	12.6	13.4	14.3	15.1	16.4	18.1	20.0
8. Contributions to pension funds.....	1.7	2.0	2.4	2.9	3.6	4.2	4.9	5.6	6.3	7.1
9. Provision for depreciation of bank premises.....	1.8	1.9	2.0	2.1	2.3	2.5	2.9	3.2	3.6	4.0
10. All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	20.1	19.9	20.3	21.0	21.9	23.1	24.4	26.1	27.9	30.0
11. Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).....	110.4	109.8	111.9	116.4	122.5	130.3	139.4	150.8	163.7	177.9
SUPPLEMENTARY INFORMATION										
12. Dividends to shareholders.....	13.0	12.4	12.0	11.9	12.0	12.2	12.4	12.8	13.2	13.7
13. Net amount of current operating earnings available for losses or specific provision for losses and for general contingencies.....	17.2	17.7	18.6	19.0	19.1	20.1	20.5	21.6	22.8	25.3
14. Net amount of capital profits, including non-recurring profits.....	-0.1	.....	0.1	0.1	.....	-0.1	-0.1	.....	-0.1	-0.1
15. Average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen years ending with the year to which this return relates.....	13.4	12.2	9.4	7.7	6.4	5.3	5.1	7.8	9.4	7.8

EXHIBIT No. 12
STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS
AS AT DECEMBER 31st
 (millions of dollars)

Assets	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. and 2. Gold and subsidiary coin held in Canada.....	8.4	10.2	10.7	10.9	11.2	11.9	14.1	14.9	16.8	18.4
3. and 4. Gold and subsidiary coin held elsewhere.....	2.4	2.6	2.7	3.3	2.9	2.3	2.1	1.6	1.7	1.4
5. Notes of Bank of Canada.....	139.4	162.9	176.9	183.9	190.8	211.8	231.3	273.1	272.5	263.8
6. Deposits with Bank of Canada.....	401.7	521.2	565.5	536.2	547.3	541.7	578.6	619.0	626.6	623.9
7. Notes of and cheques on other banks.....	243.3	280.4	328.4	361.5	400.0	335.1	449.7	627.3	739.9	762.4
8. Government and bank notes other than Canadian.....	101.4	96.6	92.9	124.0	91.2	107.3	39.7	41.2	41.6	43.3
9. Deposits with and balances due by other chartered banks in Canada.....	2.4	2.3	2.4	2.4	2.1	1.0	1.3	.8	.2	.4
10. Due by banks and banking correspondents in the United Kingdom.....	40.0	30.0	29.4	28.4	29.0	17.8	23.6	20.3	20.2	21.6
11. Due by banks and banking correspondents elsewhere than in Canada and the United Kingdom.....	172.7	186.9	162.3	162.7	163.5	184.6	233.9	227.6	261.8	269.1
12. Dominion Government direct and guaranteed securities maturing within two years, not exceeding market value.....	1,788.9	1,289.0	1,199.7	620.5	785.8	888.8	822.7	734.5	1,007.0	726.4
13. Other Dominion Government direct and guaranteed securities, not exceeding market value.....	1,147.3	1,982.8	2,117.6	2,027.7	2,173.1	2,223.6	2,256.2	2,019.2	1,777.2	2,033.8
14. Provincial government direct and guaranteed securities maturing within two years, not exceeding market value.....	151.8	126.4	108.7	110.2	136.1	127.3	116.6	100.5	177.3	146.2
15. Other provincial government direct and guaranteed securities, not exceeding market value.....	140.9	188.4	207.7	357.6	339.6	318.0	299.0	254.6	201.7	188.1
16. Canadian municipal securities, not exceeding market value.....	76.5	91.0	115.5	133.3	139.9	161.3	193.7	167.3	159.4	151.9
17. Public securities other than Canadian, not exceeding market value.....	210.1	241.6	275.5	270.9	241.6	242.4	193.0	200.3	255.2	235.9
18. Other bonds, debentures and stocks, not exceeding market value.....	95.8	118.8	207.2	353.9	451.6	383.5	405.3	399.3	377.4	348.7
19. Call and short (not exceeding thirty days) loans in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....	91.8	251.2	135.5	104.9	101.4	132.5	134.0	107.3	154.5	153.5
20. Call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....	95.9	120.5	77.1	55.8	78.2	69.6	100.3	131.4	170.1	271.7
21. Current loans and discounts in Canada not otherwise included, estimated loss provided for.....	1,132.2	1,227.1	1,453.8	1,921.3	2,077.0	2,173.9	2,651.1	2,901.1	3,188.1	3,790.3

STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS
AS AT DECEMBER 31st.—Continued

(millions of dollars)

Assets	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
22. Current loans and discounts elsewhere than in Canada not otherwise included, estimated loss provided for.	130.3	150.8	178.0	233.8	240.2	210.9	246.5	278.0	264.5	288.1
23. Loans to provincial governments.....	11.5	26.1	28.6	37.1	15.2	25.3	40.8	33.3	4.6	10.6
24. Loans to cities, towns, municipalities and school districts.....	17.5	21.1	24.8	40.6	55.5	71.9	84.3	93.9	96.7	96.4
25. Non-current loans, estimated loss provided for.....	1.4	1.0	.9	1.2	1.1	1.2	1.3	1.5	1.3	1.6
26. Real estate other than bank premises.....	2.5	1.9	.8	.6	.5	.4	.3	.1	.1	.1
27. Mortgages on real estate sold by the bank.....	2.3	2.0	1.6	1.2	.9	.7	.5	.4	.4	.4
28. Bank premises, at not more than cost, less amounts (if any) written off.....	62.5	63.1	64.2	70.1	77.8	86.5	106.1	120.0	125.4	109.4
29. Liabilities of customers under acceptances and letters of credit as per contra.....	121.1	140.7	212.9	201.2	205.5	163.7	257.7	224.9	199.0	155.2
30. Deposit with the Minister of Finance for the security of note circulation.....	2.3	1.7	1.3	1.1	.9	.8	.....	.....	.....	.....
31. Shares of and loans to controlled companies.....	10.6	10.4	10.3	10.9	12.2	16.3	7.9	12.8	11.9	26.5
32. Other assets not included under the foregoing heads...	4.2	4.5	5.7	6.8	7.4	6.1	4.3	3.6	4.3	3.2
TOTAL ASSETS.....	6,459.1	7,353.2	7,798.6	7,974.0	8,579.5	8,718.2	9,495.9	9,609.8	10,157.4	10,722.3

STATEMENT OF ASSETS AND LIABILITIES OF THE CHARTERED BANKS

AS AT DECEMBER 31st—*Concluded*

(millions of dollars)

LIABILITIES	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1. Notes in circulation.....	33.6	25.7	21.4	18.2	16.2	14.0	4	2	2	1
2. Deposits by and balances due to Dominion Government.....	763.2	922.1	365.9	262.2	276.6	200.1	338.9	134.7	34.1	496.5
3. Deposits by and balances due to provincial governments.....	88.4	91.1	126.0	113.6	149.3	167.4	160.6	187.1	220.5	170.8
4. Advances from Bank of Canada, secured.....										
5. Deposits by the public, payable on demand, in Canada, in Canadian currency.....	1,862.3	2,062.9	2,290.8	2,295.6	2,543.6	2,426.5	2,770.4	2,962.7	3,242.1	3,180.1
6. Deposits by the public, payable after notice or on a fixed day, in Canada, in Canadian currency.....	2,423.0	2,865.3	3,469.3	3,740.4	4,057.0	4,433.3	4,558.4	4,611.5	4,924.5	5,034.1
7. Deposits in Canada, in currencies other than Canadian.....	65.8	51.8	96.7	86.7	79.0	79.4	101.5	118.6	159.5	196.8
8. Deposits elsewhere than in Canada.....	680.3	760.4	716.0	737.5	731.9	650.7	633.5	676.6	705.5	741.3
9. Deposits by and balances due to other chartered banks in Canada.....	19.1	19.1	24.7	29.1	38.1	94.0	117.1	159.7	157.9	182.4
10. Deposits by and balances due to banks and banking correspondents in the United Kingdom.....	32.0	35.3	32.8	39.1	37.6	37.4	42.7	47.1	35.2	33.0
11. Deposits by and balances due to banks and banking correspondents elsewhere than in Canada and the United Kingdom.....	62.8	75.5	103.8	101.9	89.1	88.2	144.1	105.2	90.6	105.2
12. Acceptances and letters of credit outstanding.....	121.1	140.7	212.9	201.2	205.5	163.7	257.7	224.9	199.0	155.2
13. Liabilities to the public not included under foregoing heads.....	5.8	3.3	3.6	5.4	6.4	6.7	6.9	4.0	4.4	4.7
14. Dividends declared and unpaid.....	1.2	1.2	2.0	3.1	3.3	3.4	2.8	2.7	2.4	2.8
15. Rest or Reserve Fund.....	136.8	136.8	176.8	181.8	185.8	190.5	197.5	209.2	220.1	260.4
16. Capital paid up.....	145.5	145.5	145.5	145.5	145.5	145.5	145.5	148.4	148.8	152.5
TOTAL LIABILITIES.....	6,440.9	7,336.7	7,788.2	7,961.3	8,564.9	8,700.8	9,478.0	9,592.6	10,144.8	10,715.9

EXHIBIT No. 13

THE CHARTERED BANKS OF CANADA

BRANCHES

Location of Branches at December 31, 1953

Alberta	270
British Columbia	328
Manitoba	175
New Brunswick	107
Newfoundland	45
Nova Scotia	149
Ontario	1,352
Prince Edward Island	23
Quebec	1,229
Saskatchewan	247
Yukon and North West Territories	8
	<hr/>
	3,933
Outside Canada	116
	<hr/>
Total	4,049
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*Canadian Branches at December 31st, 1953**Bank*

Bank of Montreal	598
The Bank of Nova Scotia	387
The Bank of Toronto	248
The Provincial Bank of Canada	350
The Canadian Bank of Commerce	646
The Royal Bank of Canada	724
The Dominion Bank	182
Banque Canadienne Nationale	559
Imperial Bank of Canada	234
Barclays Bank (Canada)	4
The Mercantile Bank of Canada	1
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Total	3,933
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APPENDIX “B”

EXHIBIT No. 14

CERTAIN CANADIAN PRICE INDEXES

(1938=100)

Averages	Actual Indexes ⁽¹⁾				Ratios of Indexes		
	General Wholesale	Farm Products	Export Goods	Import Goods	Farm Products to General Index	Exports to General Index	Exports to Imports
1938.....	100	100	100	100	100	100	100
1939.....	97	90	96	100	93	99	96
1940.....	106	93	106	112	88	100	94
1941.....	114	104	110	122	91	97	90
1942.....	121	124	117	134	102	97	87
1943.....	125	141	130	148	113	104	88
1944.....	128	151	144	154	118	112	93
1945.....	130	162	151	155	125	116	97
1946.....	136	174	170	162	128	125	105
1947.....	160	187	194	186	117	121	104
1948.....	190	226	212	212	119	112	100
1949.....	194	222	219	217	114	113	101
1950.....	207	230	230	234	111	111	98
1951.....	235	261	261	267	111	111	98
1952.....	222	243 ⁽²⁾	259	234	109	117	111
1953.....	216	(²)	251	232	.....	116	108

(¹) Dominion Bureau of Statistics Indexes, adjusted to the base 1938=100.

(²) The method used in constructing this price index is such that the index is comparable only for those periods for which final Wheat Board prices for western wheat, oats, and barley are available. The average for the calendar year 1952 shown above includes for the months August to December inclusive the final prices for the crop year ending July 31, 1953; to achieve this the latest figures published by the Dominion Bureau of Statistics have been adjusted to include the final participation payment on wheat. Since final prices for the crop year beginning August 1, 1953 are not known it is not possible to arrive at a figure for calendar year 1953 that is comparable with that for calendar year 1952. The average for the period January 1 to July 31, 1953, on a comparable basis was 221.

EXHIBIT No. 15

GENERAL WHOLESALE PRICES

(1938=100)

Annual Averages	Canada	United States	United Kingdom	Australia*	Sweden*
1938.....	100	100	100	100	100
1939.....	97	98	101	100	104
1940.....	106	100	135	110	132
1941.....	114	111	151	117	156
1942.....	121	126	157	132	171
1943.....	125	131	160	138	177
1944.....	128	132	164	139	177
1945.....	130	135	167	140	175
1946.....	136	154	173	141	188
1947.....	160	189	189	150	180
1948.....	190	204	216	170	194
1949.....	194	194	227	190	195
1950.....	207	202	259	224	204
1951.....	235	225	315	277	269
1952.....	222	218	323	313	285
1953.....	216	215	324	321	267
Jan. 1954.....	215	217	326	315**	265

SOURCES: Canada: *Prices and Price Indexes*, Dominion Bureau of Statistics.U.S.A.: *Federal Reserve Bulletin*.U.K.: *Monthly Digest of Statistics*.Australia and Sweden: *United Nations Statistical Yearbook, and Monthly Bulletin of Statistics*.

* Home consumed goods.

** December 1953.

EXHIBIT No. 16

PRICE INDEXES IN CERTAIN COUNTRIES
Latest Available Month as Percentage of 1938

	Consumer Prices	General Wholesale Prices
Argentina.....	649 (Oct. 1953)	— not available —
Australia.....	261 (4th Quarter 1953)	315 (Dec. 1953)
Austria.....	1,020 (Jan. 1954)	1,220 (Jan. 1954)
Belgium.....	396 (Jan. 1954)	408 (Dec. 1953)
Brazil.....	692 (Dec. 1953)	752 (Dec. 1953)
Canada.....	182 (Feb. 1954)	215 (Jan. 1954)
Ceylon.....	266 (Dec. 1953)	— not available —
Denmark.....	205 (Jan. 1954)	302 (Jan. 1954)
France.....	2,383 (Jan. 1954)	2,780 (Jan. 1954)
Germany (Western).....	167 (Dec. 1953)	216 (Dec. 1953)
India.....	315 (Oct. 1953)	419 (Jan. 1954)
Iran.....	780 (Dec. 1953)	759 (Dec. 1953)
Ireland.....	229 (3rd Quarter 1953)	298 (Dec. 1953)
Italy.....	5,850 (Dec. 1953)	4,850 (Dec. 1953)
Mexico.....	452 (Dec. 1953)	400 (Dec. 1953)
Netherlands.....	265 (Dec. 1953)	372 (Dec. 1953)
New Zealand.....	192 (4th Quarter 1953)	246 (Sept. 1953)
Norway.....	217 (Dec. 1953)	276 (Jan. 1954)
Portugal.....	209 (Jan. 1954)	264 (Dec. 1953)
Spain.....	374 (Dec. 1953)	629 (Dec. 1953)
Sweden.....	200 (Dec. 1953)	265 (Jan. 1954)
Switzerland.....	170 (Jan. 1954)	213 (Jan. 1954)
Thailand.....	1,783 (Oct. 1953)	1,667 (Nov. 1953)
Turkey.....	397 (Dec. 1953)	529 (Dec. 1953)
Union of South Africa.....	191 (Dec. 1953)	263 (Dec. 1953)
United Kingdom.....	227 (Jan. 1954)	326 (Jan. 1954)
United States.....	191 (Jan. 1954)	217 (Jan. 1954)

SOURCES: Canada: *Prices and Price Indexes*, Dominion Bureau of Statistics.

U.S.A.: *Federal Reserve Bulletin*.

U.K.: *London and Cambridge Economic Bulletin, and Monthly Digest of Statistics*.

All Other Countries: *U.N. Monthly Bulletin of Statistics*, March 1954.

EXHIBIT No. 17

VALUE OF THE U.S. DOLLAR IN CANADA ⁽¹⁾

(cents per unit—average of business days)

1938, 100·56; 1939, 103·70; 1940, 110·50; 1941, 110·50; 1942, 110·50; 1943, 110·50; 1944, 110·50; 1945, 110·45; 1946, 105·75; 1947, 100·25; 1948, 100·25; 1949, 103·08; 1950, 108·92; 1951, 105·28; 1952, 97·89; 1953, 98·34.

⁽¹⁾ In the period September 16, 1939 to October 2, 1950, rates used in this table are the averages of the mid-rates between the official buying and selling rates. For other periods covered the rates are averages of noon rates.

EXHIBIT No. 18

RATIOS OF CASH RESERVES TO DEPOSIT LIABILITIES IN CERTAIN COUNTRIES

(percentages)

	Canada ⁽¹⁾	United States ⁽²⁾	United Kingdom ⁽³⁾
1944	11·8	17·0	10·5
1945	11·4	16·6	10·5
1946	11·4	16·0	10·3
1947	10·8	15·7	8·4
1948	10·9	16·8	8·2
1949	10·4	16·6	8·3
1950	10·1	14·7	8·3
1951	10·2	16·4	8·3
1952	10·4	16·3	8·3
1953	10·2	15·6	8·1

⁽¹⁾ Chartered Banks: Daily average ratio of Cash Reserves to Canadian Dollar Deposits.

⁽²⁾ Federal Reserve Member Banks: Daily average ratio of reserves to net demand deposits and time deposits. Reserves do not include notes in tills.

⁽³⁾ London Clearing Banks: Average of monthly reporting dates.

APPENDIX “C”

MONEY MARKET

In the latter part of my statement on post-war monetary policy I referred to some of the steps which have been taken to encourage the development of the money market in Canada. At the close of the last meeting of the Committee I agreed, in response to a question by Mr. Adamson, to define what I meant by the term money market and to say something about the functions of that market.

The term "money market" is widely used but seldom defined and indeed it is not easy to give it a precise definition. The particular sector of the overall financial market which it describes has varied from country to country and from time to time. I think a general definition would include any markets for financial assets in which individuals, corporations and financial institutions invest their short-term funds, and in which a certain amount of turnover, or buying and selling, goes on fairly continuously. It is a market for the temporary employment of cash balances.

In Canada, Treasury Bills and other Government of Canada short-term securities are by far the most important categories of assets involved at the present time. Commercial bills and similar instruments which are an important factor in the money market in London, for example, have played and are likely to play a negligible role in Canada. In this country they are held exclusively by banks and there is no trading even between banks in this type of paper. There are a number of other types of securities or assets which may be said to be actually or potentially on the fringes of the money market. For example, the larger provincial governments have a substantial volume of short-term debt outstanding, some of it bearing the name of Treasury Bills. At present there is no trading in these Bills and they are in reality just another form of short-term loan to a province by its banker or bankers. They might, however, develop sufficient tradeability in future to be classed as money market paper. Again, while there is no call loan market in Canada dealing in loans which can be called on really short notice and which are made on an impersonal basis, the type of bank loan which stockbrokers and investment dealers presently use to finance their inventories might in future develop in the direction of being a true money market type of asset.

I would not include in my definition of the money market such specialized markets as the stock exchanges and the foreign exchange market owing to the fact that it is not their primary function to provide a liquid form of asset for the investment of short-term balances. For practical purposes then, the Canadian money market consists at the present time of all the buyers and sellers of Treasury Bills and other short-term Government of Canada securities. This will always be the core of the Canadian money market, and only as breadth and volume is developed in this area is it likely that the boundaries of the money market can be extended as widely as in larger and older financial communities.

Now I would like to say a few words about the functions of the money market. In general, I believe that one can say that its function is basically the same as that of any market in a competitive economy whether it deals in financial or physical assets. A good market, by promoting wide competition between sellers and providing wide choices to users, tends to distribute resources where they are used with maximum efficiency. Short-term capital, like any other commodity or service, is likely to be forthcoming in optimum

amounts and to be most efficiently used if it is subject to the incentives and disciplines which are provided by a broad market. In Canada, where I think we can look forward to rapid growth and a correspondingly large demand for capital, and where there is considerable scope for Canadian capital to displace external sources of financing, we clearly need to use our own sources of short-term as well as long-term capital as effectively as possible. Moreover, the kind of financial machinery needed to provide a good short-term Government securities market will also help to provide better facilities for long-term financing.

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Canada, Banking and Commerce
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

Decennial Revision of the Bank Act

THURSDAY, MARCH 25, 1954

WITNESS:

Mr. Graham Towers, C.M.G., Governor of the Bank of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



ORDERS OF REFERENCE

THURSDAY, March 25, 1954.

Ordered.—That the name of Mr. Fulton be substituted for that of Mr. Hees on the said Committee.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, March 25, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Huffman, Low, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, Matheson, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Tucker, Weaver, Wood.

In attendance: Mr. Graham Towers, C.M.G., Governor of the Bank of Canada; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of the Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. C. B. Neapole, Assistant General Manager of the Royal Bank of Canada; Mr. A. C. Jensen, Vice-President of the Canadian Bankers' Association and General Manager of The Bank of Montreal; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. A. C. Ashforth, Vice-President and General Manager of The Dominion Bank, and Mr. J. Fiott, Assistant to the General Manager of the Bank of Nova Scotia.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

The examination of Mr. Towers on his statement on *Post-War Monetary Policy* was continued.

Mr. Towers laid on the table the following document, which is to be found as *Appendix "A"* to this day's evidence.

Exhibit 19: Gross National Product per Capita and Gross National Product per Person Gainfully Occupied, in Canada and the United States, 1938-1953, inclusive.

At 1.05 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, March 30, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MARCH 25, 1954

11:00 a.m.

The CHAIRMAN: Gentlemen, our program appears to be about as follows: Today I hope that Mr. Towers will complete his evidence. On Tuesday we shall have the deputy minister. On the following Thursday we shall have the banks representative, and then continue with him the next Tuesday. On Thursday, the 8th the Attorney General of the Province of Alberta will be here, if we do not finish with him on Thursday, he will make himself available on Friday. We shall have to sit on Friday in order not to hold him over the weekend.

It has been suggested to me, and I think the suggestion has merit, that the members of this committee will want to hear the debate this afternoon on foreign affairs. For that reason we shall not sit this afternoon.

I hope that the questioning of Mr. Towers will be finished today. However, Mr. Towers will be available at a later date.

One more thing: I think it will be useful to indicate to the banks representative the topics of special interest upon which he should inform himself and prepare data. I have indicated the following special subject matters which I thought would be useful to the committee:

- Farm Improvement Loans Act
- Veterans' Business and Professional Loans Act
- Loans by provinces
- Number of loans refused or accepted
- Amount of and experience with personal loans
- Cost
- Amount
- Method of operation
- Interrelationship between trust companies and banks.

What has been done since the 1944 committee to give little businesses, labour and farmers representation on the boards of the various banks.

If any of the members have any subject matter in mind, or any information that they wish, will they please indicate it now while the banks are here so that they will have an opportunity to prepare themselves for questioning.

Mr. Low: Contingency reserves, Mr. Chairman.

The CHAIRMAN: Contingency reserves, I think, would be a matter for the minister.

Mr. Low: Apparently, yes.

The CHAIRMAN: It will be a matter that you will discuss with the minister, when he is here.

Mr. CAMERON (*Nanaimo*): I wonder if we might have the relationship of the banks to the other lending institutions?

The CHAIRMAN: Relationship of the banks to other lending institutions, you mean insurance companies and trusts and loans?

Mr. TUCKER: Mr. Chairman, might we have the profits of the banks covering, let us say, the last 20 years as compared with the paid up capital and the disposition of those profits?

The CHAIRMAN: It is in the exhibits; it is already in there for 10 years, Mr. Tucker.

Mr. TUCKER: That is all right for the time being.

Mr. NOSEWORTHY: Mr. Chairman, 10 years ago I think we received a list showing the companies, corporations and firms of which bank directors were also partners or directors. I wonder if we could have such a list now?

The CHAIRMAN: Mr. Noseworthy, with that answer the file is inches thick. It is lodged with the clerk of the committee and is available for committee members to look at. We just could not print it, but it is in his possession and any member who wishes can arrange to see it.

Mr. TUCKER: And the costs of doing business, Mr. Chairman.

Mr. NOSEWORTHY: How does it happen that the inspector of banks was able to file that list for us 10 years ago?

The CHAIRMAN: It was in the record 10 years ago. But you may have a look at the file and if you think we ought to put it on the record, we shall be very glad to discuss it with you.

Mr. NOSEWORTHY: And 10 years ago we also received a report of the bank deposits broken down, showing the number of deposits at various levels.

The CHAIRMAN: It is already in the record.

Mr. TUCKER: And the cost of doing business broken down, showing such things as the cost of administering deposit accounts, of various costs of that nature including the amount invested in real property and buildings.

Mr. Low: Mr. Tucker apparently did not have his cereal this morning. I wish he would speak up.

Mr. TUCKER: I am sorry. I was suggesting that we have the cost of doing business.

Mr. BALCOM: Mr. Chairman, I wonder if that list might not also include the loans from the banks to small loan companies.

The CHAIRMAN: Yes. The Bank of Commerce is in that business, I think. That is what you have in mind, is it not?

Mr. BALCOM: I mean loan companies, Mr. Chairman.

Mr. BENIDICKSON: I think Mr. Balcom means the relationship through borrowing, not the small loans.

The CHAIRMAN: Yes, that will be tabled.

Mr. JOHNSON (*Kindersley*): I wonder if information might be provided showing the number of shareholders and the proportion of shares held by each individual?

Mr. ELDERKIN (*Inspector-General of Banks*): That information has already been tabled and is in the exhibits.

Mr. POULIOT: Mr. Chairman, on Tuesday the special committee on railways and shipping will be sitting.

The CHAIRMAN: Mr. Pouliot, I think that affects particularly you and Mr. Macdonnell. There are only six members of our committee who are members of the railways and shipping committee.

Mr. POULIOT: I simply mention it because Mr. Cavers was to speak to you about it.

The CHAIRMAN: I spoke with Mr. Cavers this morning.

Mr. ELDERKIN (*Inspector-General of Banks*): The amount of investment in bank premises is contained as an item in the balance sheets of the bank.

Mr. TUCKER: Mr. Chairman, I had in mind the amount of investment year by year over the last 10 years in bank premises and buildings.

Mr. ELDERKIN (*Inspector-General of Banks*): It will show it, comparatively speaking. There is a comparative balance sheet in there for 10 years; bank premises are shown separately there, and the banks as a whole will appear there.

Mr. APPLEWHAITE: Mr. Chairman I wonder if the answer to the request by Mr. Balcom would clearly show what financial assistance the banks are giving to the small loan companies and any inter-relationship there may be between them?

The CHAIRMAN: Are there any other suggestions?

Mr. HELLYER: Will there be a statement to show interlocking directorates?

The CHAIRMAN: It is already on file. You may look at it, Mr. Hellyer, and if you are not fully satisfied, you may question the witness.

Mr. TUCKER: Mr. Chairman, I wonder if we can go further into questions based on legislation passed in the House of Commons with reference to housing, and to consider what contributions the banks can make in that field? I think that should be dealt with too.

Mr. FLEMING: In the light of the interest rate having been established at the rate of $5\frac{1}{2}$ per cent, I suppose that is the only new development, and the maximum amount available for loans to any one new housing unit.

Mr. FRASER (*Peterborough*): Mr. Chairman I wonder if the Bankers Association will be able to give us the approximate cost to the banks for looking after the different forms and one thing and another which the government demands them to have?

Mr. HELLYER: I wonder, Mr. Chairman, if we might have something showing the income of a bank from various sources such as the amount derived from interest on loans, the amount derived from cashing cheques and so on?

Mr. ELDERKIN (*Inspector-General of Banks*): The banks as a whole are tabled, Mr. Chairman.

The CHAIRMAN: Now, gentlemen, I intend to bring the matter which you raised to the attention of Mr. Atkinson, the bank's spokesman, although I really do not need to do so because he is here. I am certain he will try to the best of his ability to meet your requests and suggestions.

Mr. CANNON: What about the report of the committee that was to be reprinted because of a mistake. Has that been done?

The CHAIRMAN: Yes.

Mr. CANNON: Is it available?

The CHAIRMAN: Yes. I think it will be available for 12.00 o'clock.

Mr. ADAMSON: I would like to discuss the question of the money market with Mr. Towers, Mr. Chairman.

The CHAIRMAN: Before we get to the money market, Mr. Pouliot has a few questions.

Mr. Graham Towers, Governor of the Bank of Canada, called:

Mr. POULIOT: Will you please tell me, Mr. Chairman, if Bill 297, "An Act to amend the Bank of Canada Act", and Bill 338, "An Act respecting Banks and Banking", are both before the committee now?

The CHAIRMAN: Yes, Mr. Pouliot.

By Mr. Pouliot:

Q. Thank you. Now, Mr. Towers, I have been very much interested in reading again your statement on postwar monetary policy. You gave it to us in your capacity as Governor of the Bank of Canada?—A. Yes, sir.

Q. And you explained to us what were the views of the Bank of Canada concerning Canadian business since the war?—A. Yes.

Q. And if I understand it, the Bank of Canada is a kind of pendulum to regulate banking business in this country?—A. In a sense I think you are right, Mr. Pouliot. It tries to achieve stability.

Q. Exactly, just the same as a pendulum does?—A. Yes.

Q. And the Bank of Canada is also the mother house of the other banks in a certain respect?—A. It is the place where they keep their cash reserves, and Bank of Canada activities do affect the banking system as a whole.

Q. Yes. Now, Mr. Towers, will you please tell me where the clearings of the banks are mentioned in the report of the Bank of Canada, and the tabulations given to us by Mr. Elderkin? Is there any mention of the clearings of the banks?—A. No, there is no mention of those in our report.

Q. As you know very well, the bank clearings indicate the volume of business done by the banks?—A. I think that the bank debit figures are a better guide for that, although I should point out that financial transactions affect very heavily both the clearings and to some extent the bank debits; for example, if there is a large refunding issue of government of Canada bonds, the sale of that issue and the payment for it involve substantial additions to the clearings. So that financial transactions, as I say, affect the clearings very materially.

Q. Yes. Well, why did you not mention that in your postwar report?—A. We did not think the figure of clearings was very important, Mr. Pouliot.

Q. It means the clearings are the total amount of the transactions made by cheques or drafts within a certain period of time?—A. The bank debits reflect those figures, whereas the clearings represent transactions between the banks.

Q. Well, do you believe in the importance of the circulation of money?—A. Yes.

Q. And do the clearings indicate the circulation of money by cheque?—A. The bank debit figures indicate that more accurately, that is the debits to accounts in the chartered banks.

Q. Yes, but there is no difference between bank debits and the clearings?—A. Yes, because the bank debits represent all the transactions of that kind, whereas the clearings represent the interchange between one bank and another.

Q. Well, the debits do not mention the circulation of bank notes nor currency?—A. No, the debits relate solely to cheques on accounts.

Q. Which means that the transaction of business is more than the clearings and the debits—the debit accounts of the banks?—A. Yes, because a certain number of transactions take place in cash.

Q. In cash and by postal notes too?—A. Yes.

Q. And express money orders?—A. Yes.

Q. And to have a basis of the internal trade, what would you suggest?—A. I think that one gets more accurate results by going outside the figures of bank debits and still more of clearings into the various tabulations made by the Bureau of Statistics on retail trade, on volume of industrial production, volume of agricultural production, and finally bringing it all together in the annual accounts showing the gross national product.

Q. Why did you not mention it in your statement?—A. We do refer in our annual statement to the gross national product.

Q. Will you please tell me at what page it is?—A. On page 2 of the annual report for 1953.

Q. "Personal consumption expenditure"?—A. At the foot of that table is the figure of the estimated gross national product.

Q. It means the exchange of cheques and currency between Canadians?—A. Not the gross national product, no; it purports to show the gross production of Canada in 1953, and some of the forms in which expenditures took place.

Q. Does it consider the imports?—A. Yes, and exports.

Q. And you are familiar with the statistics of the Canada Year Book about cheques cashed at individual clearing house centres in a certain period of time?—A. Yes, I have not the form of table in my head, but I am generally familiar with it.

Q. You know about it?—A. Yes.

Q. I have looked at the Canada Year Book for 1951, and I have found that the clearings were tabulated according to regions, the Atlantic provinces, Quebec, Ontario, prairie provinces, British Columbia, and it is very interesting, but for five years the clearings were \$87½ billion. This was for the years 1945 to 1949. In 1939 I asked the then Minister of Finance, Mr. Dunning, to give me a tabulation showing total clearings of all chartered banks for each month during the five years preceding 1939 or from the date of the establishment of the Bank of Canada, and I would like to have the same figures from 1946. This sheet has been used very much, but it will give you an idea of what I want, and I do not need it any more.—A. Thank you.

Q. Now, Mr. Towers, as this is your last appearance before the committee unless you are called again, would you be kind enough to tell me about Barclays Bank? Of the 10 banks whose reports have been studied by the committee it is the only one whose mother house is outside Canada?—A. Yes.

Q. Why is it that the reports of Barclays Bank are different from the reports of the nine other chartered banks?—A. I would say that being a wholly-owned subsidiary of the English bank that they have no individual shareholders to whom to make a report. I think that is the difference, though the inspector general is a better man to comment on that than I.

Q. Have you any idea of the deposits in Barclays Bank which have been transferred outside Canada to the mother house?—A. No, I have not.

Q. This is an unknown quantity?—A. I am not sure about that without studying the balance sheet.

Q. When I asked for a report, we had the president's address, but no balance sheet, which made me suspicious?—A. They do publish a monthly statement in the same way as the other banks, of course.

Q. But it does not indicate the transfer of Canadian money outside of Canada?—A. I think not, but I would like to look at the figures before saying that.

Q. And there is no way to check it?—A. The inspector general, of course, knows all the figures of the banks, although what he can say about an individual bank is another matter.

Q. Yes. Well now, Mr. Towers, I wish to express my appreciation for the fact that the seat of your agencies is mentioned in your report, because when I asked for it in 1939 I could not get it. It was secret information.—A. I am surprised to hear that.

Mr. BENEDICKSON: What?

By Mr. Pouliot:

Q. The seats of the agencies of the Bank of Canada.—A. We have published them in our report each year since we started operations.

Q. I asked for it and also the number of the personnel in each agency. Would you have any objection in giving it?—A. None whatsoever.

Q. Thank you. This is progress over the last years, because I could not get even that information, and you know that the members of parliament are ready to cooperate with you and we are here, and I understand that high finance is the finance above the clouds—the finance that we cannot see or understand—and I would be very much interested to know about the personnel of your bank. Well, now, could I ask you another question that I asked about the salary of Brooks, the doorman. I could not get the information, and both Mr. Mackenzie King and Mr. Abbott told me it was shameful to ask for it.—A. Time having passed that very useful man has retired and so there is no salary.

Q. That is my misfortune. It was very hard to get information in those years when everybody was very touchy about all the questions that were put. Now, as it is your last appearance before the committee, what in your view is the purpose of each amendment to the Bank Act or the Bank of Canada Act besides the mortgage business?—A. Would you wish me, Mr. Chairman, to speak about the various amendments?

The CHAIRMAN: Suppose you leave the Bank Act to the deputy minister who will be here on Tuesday and let Mr. Towers speak for the Bank of Canada Act.

The WITNESS: Mr. Pouliot was speaking of the Bank of Canada Act, I believe.

Mr. POULIOT: Both.

The WITNESS: The Bank Act I could not deal with. I could deal with the Bank of Canada Act if it is the wish of the committee at this stage to get into the question of the various amendments.

The CHAIRMAN: It was our intention, Mr. Pouliot, not to deal with the individual Sections until we finished the general discussion.

Mr. POULIOT: Would you mind coming back?

The WITNESS: I am at the committee's disposal at any time.

Mr. POULIOT: When we study the bill clause by clause.

The CHAIRMAN: He will be here if we require him.

By Mr. Pouliot:

Q. One final question, Mr. Towers. As nothing appears in the report of the Bank of Canada or the annual reports of the chartered banks about the volume of internal trade in Canada, will you tell us if it is encouraging or not?—A. The national accounts to which I referred earlier, those which appear on page 2 of the bank's annual report, do reflect the trade in Canada each year and for quite some years those reports have shown a constant and very satisfactory growth in trade in Canada.

Q. Will you please give us the figures for the past nine years?—A. Yes.

Q. You have them?—A. Yes.

Q. Would you be kind enough to show what progress has been made in Canadian trade during the last nine years?—A. We can give you those figures.

Mr. POULIOT: Thank you.

By Mr. Adamson:

Q. Mr. Towers, you gave a very interesting answer to a question on the money market. Am I right in thinking that the establishment of a money market is the major change in Canadian banking envisaged at the present time?—A. Well, Mr. Adamson, I would say that it is a question of gradual growth rather than any sudden change or establishment of a new thing. That gradual growth in various forms has been taking place—speaking from Bank of Canada experience—over the last 18 years. We hope there are various means by which the arrangements and mechanism can be further improved, but I would call it a gradual evolving of a better money market rather than the sudden establishment of some new thing.

Q. When the Bank of Canada was set up one of the conditions mitigating against its function—or what was considered to be its function—was the lack of a money market in Canada?—A. Yes.

Q. Do I understand that a money market is a device whereby a firm with short-term money—that is money which it has now but expects to have to pay out in 30, 60, or 90 days—can go into the money market and get money for a short period of time?—A. They can invest money for a short period of time. Your suggestion is that a firm has some surplus, that is surplus for 60 or 90 days?

Q. Yes.—A. It could, for a certain time, arrange to make a time deposit with a bank or buy Treasury Bills or very short-term securities which would meet its needs.

Q. That is what you are doing now with short-term bills, making them payable at any time in the next month?—A. That meets the requirements of corporations or others in the position you mention.

Q. If I am a firm and have say \$1 million and have a commitment to pay that in 60 days from now, I can go in the money market and invest that \$1 million for a period of 60 days?—A. Yes.

Q. Now, how about the converse position? Let us suppose that I am being paid a million dollars 60 days from now, how will the money market then help me? Could I go to a commercial bank and discount my 60 day payment ahead?—A. If it is in a form which is discountable; for example, if you hold a good note payable in 60 days, yes, you could discount it with a bank.

Q. And with the money market I would be able to get a better borrowing rate and rate of interest than with the commercial bank?—A. As I said in the reply to your earlier question, while commercial bills and bankers' acceptances are a factor in the money market in London and are traded in, I do not visualize in the near future a similar development in Canada. I think that commercial bills are more likely to remain within the banks which have discounted them, and that the money market developments here are much more likely to be in the form of treasury bills, short-term government of Canada securities and other short-term obligations of that kind.

Q. You do not envisage, for instance, a man with a bill of lading being able to go into the money market and discount it?—A. I think he would go to his bank.

Q. In England and in New York, would he go to his bank or would he go to the money market?—A. In general, he would go to his bank, but he might arrange to have an acceptance credit and draw under that credit which would be established by a bank. He would then come into possession of a banker's acceptance. He might discount it with his bank, or he might arrange to do so through one of the discount houses.

Q. We do not have the counterpart of the discount houses in Canada as they have them in the United Kingdom and in New York?—A. No, we do not.

Q. Do you envisage that we will have the establishment of these discount houses?—A. I should think it is unlikely in the near future, but I would not like to rule it out. It would depend on whether the volume of business available was sufficient to support one, and to the extent that the banks render these services in Canada, rather than have part of them performed by the special discount houses, it would be a question of how much was left over for a discount house. That, I do not know.

Q. I see. What I am trying to get clear in my mind is the function of the money market in Canada, and how it differs from our previous practice? It has always seemed to me to be wrong that Canada has had to depend so much on the New York money market and particularly on the New York brokers. I was thinking of one specific instance, for the brokerage of commodities, particularly of coffee. It seems to me—perhaps this does not come into a general discussion on banking but I feel we are very largely beholden to the money market of New York?—A. So far as the money market in New York is concerned, very little use is made of it by Canadians. There have been, from time to time, Canadian concerns whose standing was such that they were able to sell their commercial paper in New York either to banks or via dealers, but those cases have been very few in number and are very few in number. In so far as commodity markets are concerned, the situation is different. As you say, the major markets in commodities such as coffee or cocoa or rubber, are in New York or London. It would appear that it is very difficult for a small country whose volume of trading in these particular things is also relatively small, to develop markets which could survive, so to speak, by having enough business for the people in it to earn their way.

Q. And you say that despite the fact that we are theoretically the third trading nation of the world, that the volume of business on any commodity exchanged in Canada would not be great enough to make it worth while?—A. Of course, if it were not for special circumstances I would except wheat or cereals where we have a very large position, but I think it would be very difficult to have a rubber market, for example, functioning just in Canada. I doubt whether there would be sufficient business and earnings to warrant the time and effort of the people who would have to operate it.

Q. I see, and you do not feel that the establishment of the money market as such will assist in the establishment of the commodity market?—A. No, not directly.

Q. Thank you very much. There is just one further question. I do not feel one can appear before a committee of this kind without asking one question concerning gold, and my question is this: I see that all the banks have this item, gold and subsidiary coin held in Canada. How do they hold that gold?—A. Is there any figure opposite that in the report?

Q. Yes, the Royal Bank, gold and subsidiary coin held in Canada, \$3,590,000—gold and subsidiary coin held elsewhere, \$1,142,000.—A. Those figures, of course, are separated in the statement so that I notice gold held in Canada, \$4.

Q. Four dollars?—A. Yes. I see that the Bank of Montreal is the proud possessor of that \$4 in gold and perhaps any questions concerning it should be addressed to their representative.

Q. I just wondered about that, because there is a statement there. Yesterday Mr. Abbott said in the House in answer to a question of mine that there was nothing to prevent a bank or anybody from holding gold, buying it, trading it, or selling it in Canada.

The CHAIRMAN: Except that they would have to take their chances on obtaining an export licence. They could get it, but they would not be sure that they could get rid of it outside this country.

Mr. ADAMSON: Therefore the banks hold absolutely no gold whatsoever.

The WITNESS: In effect, yes.

Mr. ADAMSON: Thank you.

The CHAIRMAN: Now, Mr. Philpott.

By Mr. Philpott:

Q. Mr. Chairman I have just a few questions arising more or less from other matters or questions which have been previously discussed. Now, Mr. Towers, in your remarks on balance of payments, especially with the United States and with the Sterling area, you were not suggesting that it would not be a good thing if we could bring those balances more nearly into balance?—A. I think it would be a very desirable thing if it could happen in the normal course of trade rather than be forced into that pattern by restrictions of any kind.

Q. In other words, you certainly were not trying to discourage any move to promote the sale of Canadian products by people getting up concerted moves to buy more things from Britain or from the Sterling area?—A. Certainly not.

Q. During the second World War the late Lord Keynes publicized some sort of scheme which amounted to a single world clearing house for international trade, as I recall it. He coined the word "bankor". That was to designate the artificial currency or whatever it was, and the idea was that all nations would automatically have to be in balance with all other nations.—A. No, the idea was rather that if the nations were not in balance that you could put it on the cuff, so that those who had a substantial credit position would not get paid for the time being, and those who had a deficit position would get the necessary credit. It was a very spectacular conception, and it would have depended for its success—if the countries had ever been willing to adopt it—on those participating all being pretty well of the same strength, pretty well similar in behaviour in regard to their internal affairs so that, in effect, none of them would have gone down the drain too fast and too far, and things would have been more or less in balance.

Q. But as a basic conception it was not an unsound one and it would have avoided many of those balance of payment problems which we now have.—A. I suppose if things had been the same as they were in recent years, it would have avoided certain balance of payment problems by some countries extending credit to others on a greater scale than actually took place.

Q. Just a question or two with regard to our balance of payments with the United States. Right at the moment our dollar is at a premium chiefly because of the large volume of American investments in Canada?—A. Yes.

Q. There are certain real dangers because at any time they might withdraw it.—A. Their investments for quite some time now have taken the form of direct investments rather than buying Canadian domestic securities. Direct investments go—I shall speak of the usual spectacular one—into oil and a number of other things where they cannot run in and out, and by the very nature of the investment it is a long-term affair.

Q. If the volume of investment tends suddenly to increase, does your bank take any steps in the way of counter measures? Do you begin to buy quietly in the American market or what?—A. If the volume of American investments increases?

Q. Yes.—A. Well, if it suddenly increased that means that there are more United States dollars being offered on our exchange market. The Bank of

Canada does not take any direct action there. But the exchange fund account, as the minister mentioned, will try to exercise a cushioning influence on a moderate scale.

Q. We often hear the suggestion in Canada, and in other countries, that if the United States would raise the price of gold above \$35 an ounce, that it would be a good thing for Canada. Do you think that is so?—A. Yes.

Q. What would be the effect?—A. The direct effect of course is the obvious one, that our gold mines would be able to sell at that higher price. But if the action of the United States resulted in a general improvement in world trade, then of course we would share in that too.

Q. From your point of view, in view of the fact that they have this huge hoard of gold, how do they make out? Would it be better than suddenly to write up their own investment?—A. The only way it can be done, of course, is with the support of public opinion and finally by Congress which is the one to decide whether it would be in the interests of the United States. And there is one statement which I can make with confidence and it is that unless the Congress felt that it was in the interests of the United States, they would not do it.

I would be surprised if a country which was a substantial buyer of gold from other countries raised the price because usually a buyer does not deliberately do so. But if, on the other hand, the situation ever arose where they were substantial sellers, that might be a different matter.

Q. In other words, so far as anyone can see, a rise in the price of gold in the United States would help everybody in Canada and not hurt any particular class.

The CHAIRMAN: In Canada?

Mr. ADAMSON: In Canada, yes.

The WITNESS: I cannot see that it would.

The CHAIRMAN: Now, Mr. Applewhaite.

By Mr. Applewhaite:

Q. Did you say that you thought it would help us or hurt us?—A. I said that I thought it would not hurt, unless the action of the United States was a reflection of a situation in which they were going into inflation in a big way. If one could have a higher gold price without inflation, then Canada would certainly benefit. But if the higher gold price meant that the United States was running up to the roof from an inflationary point of view, we would all get hurt.

Mr. BENEDICKSON: Might I ask the witness if in the last six months the United States has been a net buyer or a net seller of gold?

The WITNESS: A net seller, but not on a large scale.

By Mr. Adamson:

Q. Do you know how much? Was it not nearly \$1 billion?—A. If we take their gold holdings now and compare them with their gold holdings of a year ago, I think the difference is about \$1 billion, yes.

Q. Yes. Might I ask if that is a United States figure? I do not have it.—A. It is a United States figure.

Mr. HELLYER: To whom are they selling.

The WITNESS: I do not have that information here.

The CHAIRMAN: Here is your chance to find out all about gold. Don't miss this opportunity.

By Mr. Adamson:

Q. If the United States should raise the price of gold it would, in your opinion, aid international trade?—A. Yes, I think it would. But the United States Congress would have to consider whether that was aid by the United States benefiting others, or whether it also benefited the United States.

The CHAIRMAN: Now, Mr. Weaver.

By Mr. Weaver:

Q. You stated on Tuesday that the United States are on the gold standard. Speaking as a banker, what objection do you see to a country on the gold standard objecting to the manner which another country took to increase its gold supplies?—A. Has there been that objection? Could you illustrate that?

Q. I may be incorrect in this, but it seems to me that in 1947 and 1948 the government announced a subsidy of a certain figure on gold, an increase to gold producers, and shortly afterwards, according to the papers, because of United States objection, the subsidy was withdrawn and a different arrangement was made at that time for increasing it.—A. I think you may be right in saying that the form of it was changed. The international monetary fund, in the years after the war, tried to suggest that it was not strictly according to Hoyle for the central banks in member countries to be dealing in gold at varying prices which were not the equivalent of the established par value, which is the basis on which they operated with the fund. They suggested that that really was an indirect form of currency depreciation, and if one was going to be a member and maintain the established par value, one should not deal in gold except at the fixed rates. Some of the member countries disagreed and certainly, so far as their newly mined gold was concerned, they put it out either in toto or in part on premium markets, when there was a premium available. I think that some people felt that if that carried on everyone would in due course do the same thing, and under those circumstances that the premium would disappear. Everyone has done the same thing; the premium has disappeared.

By Mr. Cannon:

Q. May I ask a question on gold? I was interested to hear Mr. Towers say that an increase in the gold price would be a good thing for Canada if we could have it without inflation. Would that be possible, or is it not a fact that if you increase the price of gold at all substantially you immediately have some form of inflation? In other words, could one go without the other?—A. It depends upon what happens after the gold price has been increased. For example, when it was increased in the United States in 1933-1934 from 20-and-some dollars to \$35 an ounce, that was done at a time when the situation there was extremely deflationary. The increase in gold price and therefore in the value of the stock does give a central bank or central banking system which holds the gold leeway for a further expansion of credit, without getting below a certain minimum percentage figure. It opens the door to an inflationary situation. It does not necessarily mean that one goes through that door.

Q. Will you allow me just another question? Is it not a fact that in the free gold market gold at the present time sells at just about the fixed price?—A. Yes.

Q. In other words, there is no premium in the free market?—A. Not in terms of dollars. There might be in terms of rupees, but that is another matter.

Q. In view of that, what would be the effect if we did increase the price of gold by, say, \$5 an ounce?—A. If the United States did?

Q. If Canada or the United States did, what would be the effect? It seems to me that we would be in a very illogical situation there; we would be fixing

an arbitrary price on something.—A. I do not think Canada can effectively do it. I think it can only be done by a country as rich and powerful as the United States.

Q. If the United States did it, what would be the effect?—A. One sees at once, of course, the direct effects as far as the producers are concerned. What the subsequent indirect effects would be, I could not visualize.

Mr. CANNON: It is a problem.

By Mr. Cameron (Nanaimo):

Q. Is there today in actual fact any other purpose or any other use to which gold can be put except that of obtaining American dollars?—A. Obtaining any currency in the world.

Q. But it is tied to the American dollar?—A. Well, we could certainly buy any currency in the world against gold.

Q. But only because of the relationship between gold and the American dollar?—A. That is certainly a very important factor, yes, it is.

Q. It may be another form of American currency which other nations of the world can get hold of by mining it. It gives them a claim to American dollars. That is its importance to our country?—A. It is more than that. During the war when the invasion of North Africa was taking place, to give one example, they had to have some form of money to land with and cover their requirements until they could set up another system. Naturally they took gold coin.

Q. But that would be in exceptional circumstances?—A. As matters stand, one can buy commodities or other currency with gold in any part of the world. If, however, the United States moved away from gold as a basis for their currency, I just cannot predict what would happen around the world under those circumstances.

By Mr. Fraser (Peterborough):

Q. There was a statement made the other day that if we traded with Russia we would have to take gold in payment. Supposing that we did trade with Russia, what would we take in payment? Would it be gold or what?—A. Assuming that Russia was not selling anything to Canada, they would offer to make payment in U.S. dollars or gold, or possibly sterling. I am sure there would be no difficulty in finding a means of taking payment if they were willing to do the trade and make the payment.

Q. On what market would they get sterling or U.S. dollars?—A. They might have the sterling or U.S. dollars as a result of exports, or they might have it as a result of selling gold in London or New York.

Mr. FLEMING: Mr. Towers, is it not a fact that there is not a country in the whole world that does not want gold if it can get hold of it?

The WITNESS: I think that is true, although at times when Switzerland felt that too much was coming her way she resisted it somewhat. That is the only case I remember, except for Sweden after the first world war.

Mr. APPLEWHAITE: I have one question which I think is applicable. Has any consideration been given recently to the remonetization or free coinage of silver in Canada?

The WITNESS: Not that I am aware of.

By Mr. Adamson:

Q. You said that the United States was on the gold standard. Surely for a country to be on the gold standard, it must allow its nationals to export and do whatever they want with gold and have its currency exchangeable

at sight into gold at a fixed rate?—A. I think I qualified my remark by saying that the United States was on the gold standard, at least in so far as international transactions are concerned.

Q. Yes, but the gold standard——A. In its pure form would be of the type you mentioned.

Q. If the United States increased the price of gold, the gold could be put in the federal reserve system and increase the availability of funds through the federal reserve system of the United States, and for that reason it might be inflationary?—A. Yes.

Q. But, at the same time, the United States is budgeting for a deficit of some \$10 billion this year?—A. A lot of figures are batted about, but usually when the smoke is cleared away the deficit is less than anticipated.

Q. Would you not say that that is inflationary?—A. Yes, it has that tendency.

Q. If we are to arrive at some price for gold on which we can return to a gold standard, do you not think it would be possible to arrive at that by the price we were willing to pay for it if it was without restriction?—A. If central banks were not willing to buy, then I do not know what price would be arrived at in the open market. That is the catch. It is hard to have it both ways. The fact that central banks are willing to buy at a minimum price, of course, has a major effect on the market around the world. If central banks such as the federal reserve system were not willing to buy at that minimum price, I do not know what would happen on the market.

Q. Is not the price of gold such that it just does not pay to hoard it, so that it could be put into trade?—A. You mean it does not pay to hoard it at \$35.

Q. If gold was a free commodity today would not the price arrived at be a price that it just would not pay to hoard it?—A. But, it is in many ways around the world a free commodity today.

Q. But, it is still being hoarded.—A. The amount of hoarding as far as I can gather in 1953 was very much less than in earlier years, and, indeed, it looks as though some dishoarding was taking place by people who bought it at higher figures, say \$43 or \$44 an ounce, got very tired and are realizing their loss. So, hoarding is not a factor now and that is evidenced by the price.

Q. My point is that to return gold to a free commodity and take off all the strings about owning, selling, or buying it, the price which would stabilize it should be the price at which people are prepared to buy and sell it?—A. And that apparently is now \$35 on ounce.

Q. That is the price it was before the war, and the current market for gold at \$35 an ounce is not taking into any consideration the tremendous increase in the national debts that the various countries have had since the beginning of the war.—A. Apparently not.

By Mr. Hellyer:

Q. Mr. Towers, is there any reason why we should not take sections 22 and 23 right out of the Bank of Canada Act?—A. While this is perhaps a matter that the minister should deal with, I think the situation is that under the Currency Mint and Exchange Fund Act the possibility is visualized that at sometime or another one might get to a situation in which section 22 would be effective. In other words, while no one would wish to prophesy when that time would come, it is not desired to expunge the provisions of the original setup, but rather to leave the thing open.

Q. Do you think that there is any real possibility of a return to the gold system within the foreseeable future in this country?—A. I cannot see very far into the future. That is my trouble.

Q. Then, Mr. Towers, if we were to return to the gold system it would present I think some difficulties. Could I present two hypothetical propositions. First of all, if for some reason it was necessary to make substantial payment abroad, say in the United States, for defence, and we had to pay for those purchases with gold and we used up all our gold reserves in so doing, then it would be impossible under a gold reserve system for us to have any currency issue at all. Is that true?—A. If the gold reserve got down to a point close to or at the minimum it would have the restrictive effects which you mention.

Q. Another hypothetical question on the other side: for instance, if someone came to the Minister of Finance from the laboratories at Chalk River and said to the Minister of Finance and to yourself "we have perfected a means by which we can manufacture a stable isotope of gold from lead for \$20 a pound, with a half life of 10,000 years, what would happen?

Mr. CAMERON (*Nanaimo*): They would put him in the penitentiary.

The WITNESS: I would faint.

By Mr. Hellyer:

Q. Perhaps it is not relevant, but I wonder if there is any real reason why we need to have a gold reserve section like that?—A. I think the minister should answer, but I think the idea was not that it was a practical matter for the immediate future but rather a leaving of the structure—the legal structure—as it was in case at sometime in the future it would prove useful.

Q. I have just one other question about the United States price of gold. If the United States Congress increased the price which the United States treasury is willing to pay for gold, is that not in effect another way of saying they are willing to trade more refrigerators, automobiles and other goods for the gold of the other peoples of the world?—A. I think that if they did it at all it would be because they felt that the internal effect was desirable, and that they would not base their action on the results for other countries. Perhaps a by-product of their action would be that people would be able to buy somewhat more from the United States than they otherwise would.

Q. One more question about convertibility: it is often said and repeated that if we had convertibility it would improve world trade. Is the corollary true that if world trade was more closely balanced between the various nations, and especially with the United States, that the problem of convertibility would automatically diminish?—A. In trying to reply to that question, I think I should say that convertibility in itself, like patriotism, is not enough. It is not enough if it means no difference in the trade restrictions which are so prevalent around the world because it is no use being able to convert a currency if you cannot earn it. Therefore, in thinking of convertibility, I have always assumed that in order for it to have any meaning, it must be one of the steps leading to a reduction of trade restrictions and discrimination. In that case it has real meaning for us and every one else.

Q. If the trade restrictions and tariffs are reduced and the people do go out and buy more on the world markets, does not that have the effect of increasing convertibility and making the world currencies more convertible?—A. Yes it does.

The CHAIRMAN: Mr. Tucker, have you a question?

Mr. TUCKER: Yes. There was some suggestion made that the only reason we would be interested in gold was in regard to its relationship with American dollars. Is it not true that the reserves of the sterling block are being held in a great proportion this last year in gold than in American dollars?

The WITNESS: I do not recall that in publishing those figures they separate the gold holding from U.S. dollars.

By Mr. Tucker:

Q. But is not that where the billion dollars has gone?—A. No, not by any means entirely. It has been disbursed in other directions as well.

Q. Where has South Africa been selling its gold?—A. She sells part in London and part on the open market.

Q. I thought that the greater proportion of it during these last two years went to the sterling block?—A. That in itself does not matter very much because if South Africa sells gold in London she may be using part of the U.S. dollar proceeds to pay her bills in U.S. dollars. The actual market where it is sold does not matter very much.

The CHAIRMAN: Mr. Noseworthy?

By Mr. Noseworthy:

Q. Mr. Towers, apart from the effect upon the immediate community concerned with gold mining, just what are the advantages to the overall Canadian economy of an increase in the production of gold?—A. I think we have come round a full circle there. The direct advantages to the mines, and those with whom they deal, that is the sum total of the direct benefits.

The CHAIRMAN: That question has already been answered.

By Mr. Noseworthy:

Q. Apart from the direct benefit to the mining communities what is the overall benefit to the Canadian economy of an increase in gold production?—A. You mean if the United States increases the price?

Q. No, at the present time, an increase in the production of gold. How beneficial is it for us to step up the production of gold at the present time?—A. Well, if the world price, if the U.S. price for gold were higher, and that encouraged increased production in Canada, the benefit to us is the same as if the United States bought more wheat or copper or whatever. It is a commodity proposition in that sense.

Mr. FRASER (*Peterborough*): It would help to increase our dollar in value, would it not?

The WITNESS: Other things being equal.

By Mr. Noseworthy:

Q. My point is, just where is the necessity—let me put it that way—apart from the influence on the communities, where is the necessity of building up our production of gold?—A. I see, I think, what you are driving at, Mr. Noseworthy, that perhaps it would be a more ideal situation if the United States bought much more of something they could eat or use, but that is hypothetical. If they were willing to pay a higher price for gold and we could profitably produce it, ours is not to ask what they do with it.

Q. That is not getting the point I have in mind particularly.

The CHAIRMAN: Mr. Noseworthy, please explain what you have in mind.

By Mr. Noseworthy:

Q. I want to find out just how essential gold production is to our economy. Now, regardless of what price the United States pays, how essential is it that we go on producing gold? Does it give us currency with which to buy goods from other countries? What are the advantages?—A. I think the test there is this: is there something other than gold which we can produce to better advantage and use the capital, labour and materials in that other form of production? If not, we are better off producing gold.

By Mr. Cameron (Nanaimo):

Q. Because it can be marketed without question for American dollars?—A. It has that advantage, yes.

Q. What other advantage has it?—A. It simply has the advantage that Canada, in the past at least and to some extent in the present, has been able to produce and sell gold at a profit.

Q. That is merely because it is a readily marketable commodity and therefore it is valuable to produce it?—A. That is not the only thing. It has the safeguard of a minimum price, but it is not as valuable to us as wheat, in terms of size. At the present moment it is not as valuable in terms of profit, either. I regard it as a commercial affair.

Mr. ADAMSON: It increases the national wealth.

Mr. NOSEWORTHY: I have one more question, Mr. Chairman. Is the possession of gold so essential to us that it is to our advantage to keep on mining when the price of gold does not pay for the cost of production?

The WITNESS: I would say that even if Canada did not produce one dollar's worth of gold, we would still have gold in our reserves, so we do not depend on Canadian production for that. Therefore, I would say it is a commercial proposition. Now I think then your question would relate to this, that if it is a losing commercial proposition, why does it carry on? In that connection we are getting into the subject of the subsidy and that is certainly a question for the minister.

The CHAIRMAN: Mr. Fraser, have you finished?

Mr. FRASER (*Peterborough*): Yes, thank you.

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. I have one question on that point, Mr. Chairman. Mr. Towers, what information, if any, have you as to the quantity of gold held in Russia?—A. There are guesses from time to time but they are awfully wild guesses. I have heard guesses made from \$4 billion to \$8 billion, but I do not think anyone really knows.

Mr. FRASER (*Peterborough*): Mr. Chairman, I would like to ask Mr. Towers a question. I mentioned Russia a little while ago. Now, some short time ago Russia paid part of her debt to Canada, the balance I think it was, and they paid it in sterling in London, England.

The WITNESS: That was the payment which was made by an arrangement, I think, through the Canadian government. It was the concluding payment to International Nickel. It was the balance of the purchase price for the Petsamo properties which International Nickel sold at the end of the war to Russia for \$20 million.

The CHAIRMAN: Is "sold" the word?

The WITNESS: Well, they have all the money now.

By Mr. Fraser (Peterborough):

Q. And it was a payment in Sterling, I understand, not dollars?—A. About \$17 million was paid in dollars, while the balance of \$2 million was paid in Sterling, speaking from memory.

Q. Why was it that they took it in Sterling?—A. I think I had better skip that, because it was a long, silly story which has now come to a close.

Q. Mr. Pouliot mentioned the Bank Act and asked if you would say something in regard to it. Did you assist in drafting it?—A. The Bank Act?

Q. Yes, the new one that we have before us, I mean the bill.—A. Oh. The bill was of course drafted in the Finance Department, but naturally we participated from the point of view of advice.

Q. The reason I asked is because in "The rural scene", volume 9, No. 3, for mid-March, 1954, there appears the following item:

In drafting legislation affecting the business of the country, it is always the part of wisdom to consult those engaged in the line of business about which we are legislating.

Apparently this was not done in drafting the proposed amendments to the Bank Act. The result is a bill that appears to have been drafted by someone with no practical understanding of either the banking business or the mortgage business; and the government finds itself embarrassed by being publicly told that its legislation is ill considered and impractical.

It has been told this in polite but firm language by the president of the Bankers Association, and also by the governor of its own Bank of Canada.

A. Oh, I shall have to be excluded from that.

Mr. BENIDICKSON: Mr. Chairman, I should think that the President of the Bankers Association could answer that for himself.

The CHAIRMAN: I see a surprised look on the face of the President of the Bankers Association. He is shaking his head from right to left.

Mr. FRASER (*Peterborough*): When we sat in this committee in 1944 I mentioned the fact at that time that some people had found it very difficult—especially those who were partly blind—to see the different denominations of the bills. I think that either you or Mr. Ilsley at that time said that something would be done, or that they would take it under consideration. But the same thing is in existence today.

Q. The colour is bad. A person with poor eyesight cannot tell the difference between a five and a one. There is very little difference. I have had blind people tell me that, otherwise I would not bring it up.—A. The situation is the same as it was in 1944, of course, because it is the same note issue. But in the new issue which we hope to start circulating in September or October, we have re-designed the notes and we have done our utmost to give them greater clarity and distinction of colour. I hope that will be an improvement from the point of view you mentioned.

Q. Let me thank you for that, because blind people or those with partial eye sight have found it very, very difficult.

The CHAIRMAN: Now, Mr. Cannon.

By Mr. Cannon:

Q. I would like to ask the witness two or three more questions which came to my mind since my turn. Where does all our gold go? Does it all go to the United States or do we use a certain part of it to make international payments with other countries?—A. Our position in recent times or recent years has been such that most of the gold obtained by the Exchange Fund Account has remained in reserve rather than being shipped to the United States to be turned into United States dollars. The figures in the Bank of Canada statistical summary show the division of the reserves as between gold and United States dollars, and they show the increase which has been taking place.

Q. You are saying that most of the gold remains in Canada?—A. In recent times that is true, in so far as gold has been sold to the Mint and then bought

by the exchange fund account. Some of the gold, as you are aware, is sold by the producers in other markets.

Mr. BENIDICKSON: There is practically none of that now.

The WITNESS: Very little.

By Mr. Cannon:

Q. Members of Parliament have been receiving for some time letters and arguments by interested parties suggesting that the price of gold should be increased now. We cannot do that. The only ones who can are the United States. But if the United States are net sellers of gold, and if, for instance, they sold \$1 billion of gold in recent months, does that not mean that they are in no position to increase the price of gold if they are net sellers?—A. They could do it, yes; but then the situation might turn around and they would turn out to be buyers.

Q. You say the situation might turn around?—A. If they raised the price, yes.

Q. Yes. And the other question is this: It seems to me that I read somewhere that one of the main factors in the reduction that has taken place recently in the gold price on the free market is the fact that Russia has made a lot of payments in gold. It seems to me that I saw a figure of 15 tons.

Q. Would that be a reasonable figure for Russia? Is it true that Russia in recent times has added 15 tons to the supply of gold on the free market?—A. I think it was a great deal more than that, so far as we can gather.

Q. Well, perhaps the figure was 50 tons?—A. So far as one can gather in recent times, in the last four or five months Russia may have sold something like \$100 million worth or over in the United Kingdom market and in Europe.

The premium in the free market in terms of dollars had been going down even before that, as people grew less convinced that it was a good speculation or needed the money. In that type of market the addition of Russian selling of course had both actual as well as psychological influences, but you cannot sort out all the various influences.

Q. But Russia's coming on the market has been an important factor.—A. It has been an important factor with Russia coming on a market which was already weak.

Q. Supposing the United States did increase the price of gold, could this situation develop: Could it not happen that Russia would bring forth even larger quantities of gold? Nobody knows what the gold resources of Russia are. And by Russia bringing forth this large amount of gold, would they not bring the world price below what might be fixed by the United States?—A. No, I do not think they are big enough for that.

Q. You do not think they could?—A. No.

Q. You do not think they would have enough gold?—A. No. I would be amazed if they tried it, because that would mean that unless they were basing their sales just on their requirements, to make payment for imports—which is what they are doing now—if they went further than that, it means they would be accumulating bank balances in various currencies, United States dollars or Sterling or what not, and I do not believe that Russia would hold large bank balances with the United States or London or with the countries of western Europe.

Q. But that might be done as a means of disrupting or spoiling our monetary system which, we have been told, is one of their objectives in their dream of world domination, if it really exists.—A. I do not believe they could do it.

The CHAIRMAN: Now, Mr. Applewhaite.

By Mr. Applewhaite:

Q. How much of your reserves are now in silver?—A. We have no reserves in silver. All we have is a moderate holding of subsidiary coin in connection with our servicing of public requirements.

Q. It is not in the form of silver bullion?—A. No.

Q. I wonder if Mr. Towers would care to comment on the suggestion which is made so frequently that if there was no Korea and no immediate threat of a world war, we in Canada must inevitably face depression conditions? What is your view on that, speaking as an economist?—A. Incidentally, while you very kindly suggest that I am an economist, I am afraid that I am not. But for what it may be worth, my opinion is that to suggest that Canada and the other democracies could not get along except on the basis of high war expenditures is absolutely wrong. To suggest that as a steady diet means that the whole system stands condemned. And I believe, irrespective of Korea or heavy defence expenditures, that the North American economy and the other economies are sufficiently dynamic so that they could maintain a high level of business without that, but the proof of the pudding is in the eating,

Mr. CAMERON (*Nanaimo*): Could you tell us what dynamic factor has been added to the North American economy since 1939?

The WITNESS: A more rapid increase in population and very considerable changes in technology.

Mr. FLEMING: Plus discovery of further resources?

The WITNESS: Yes.

Mr. HELLYER: Would you include monetary and fiscal policy?

The WITNESS: I would modestly put it at the bottom of the list, but I think it is there.

By Mr. Adamson:

Q. If two currencies are on the gold standard, does it not mean that convertibility is automatic?—If currencies could freely be exchanged into gold, would not convertibility also be automatic?—A. If I understand your question right, yes.

Q. What I mean is that if there was a free market of exchange of dollars into gold and vice versa?—A. Fixed?

Q. No, fluctuating, a completely free market. If pounds were convertible into gold, and dollars were convertible into gold, could not gold then be used as the common denominator of convertibility?—A. Hardly, because complete convertibility of that type requires a fixed rate. One currency can almost always be exchanged for another at a rate.

Q. Yes.—A. But convertibility which depends for its success on wildly fluctuating rates would be a rather poor form of convertibility.

Q. In the past the main use of gold has been as a monetary metal to aid convertibility?—A. To settle balances of international payments.

Q. Yes, which depend on a firm price of currency?—A. No, you can have those settlements even though the country which makes a settlement has a fluctuating rate of exchange.

Mr. ADAMSON: That is the point I wanted to make.

The CHAIRMAN: Mr. Low, Mr. Macdonnell cannot be here next Tuesday. Would you give him 15 minutes, or would you pass your time and we can make Mr. Towers available for you at a later date? You have the right of way.

Mr. MACDONNELL: Mr. Chairman, I am not going to ask Mr. Low to stand down.

The CHAIRMAN: Mr. Low, your witness.

Mr. Low: I will be self-effacing up to the absolute limit, Mr. Chairman.

Mr. TUCKER: As we are not meeting this afternoon, it seems to me that we should ask Mr. Towers to come back for a further session, because I have some questions I have not covered.

The CHAIRMAN: It was my thought that Mr. Towers would be back after we had an opportunity to call some of the other witnesses, and in the light of other evidence his evidence might be even more useful than it is now.

Mr. TUCKER: Mr. Chairman, I have some questions based on the Bank of Canada report and so on which I have not yet had a chance to ask, and I have questions myself which will take half an hour. I do not see any reason why we should not deal with Mr. Towers and get through with the general questioning before we come to anybody else.

The CHAIRMAN: Mr. Towers will change his program and will be here for Tuesday.

Mr. Low: I am not sure I will be here Tuesday, I cannot tell.

The CHAIRMAN: Your witness, Mr. Low.

By Mr. Low:

Q. I do not like to bring the committee so suddenly back from gold to a less glittering subject, but there are other things that we would like to consider. On Tuesday morning, Mr. Towers, you gave us some interesting figures showing the increase in currency and bank deposits for the years, if I remember correctly, 1947 to 1951, or some similar period, and the percentage increase in gross national production for the same years. Would the Bank of Canada statisticians be able to provide the committee with a graph showing how bank deposits in Canada have grown during the period, let us say, 1910-1912 to 1953, and superimposed on that chart a graph showing the ups and downs of gross national production, both graphs in constant dollar terms?—A. I am not certain about going back as far as 1910, but will you leave that to me to see what I can do?

Q. Yes, whatever convenient dates you have.—A. Without any disrespect to people who compile these figures, I think the G.N.P. figures as far back as 1910 and even more recently were rather shaky.

Q. I think they must have been, because I could not get very much out of them prior to 1926.—A. Yes, I think that is right.

Q. Whatever you can do in that regard, I would appreciate it.—A. Certainly.

Q. Has the Bank of Canada or the Dominion Bureau of Statistics, to your knowledge, ever made a study of the comparative curves of money volume and the actual jumps and setbacks in Canada's ability to produce?—A. Ability to produce would be a guess, I imagine, and a very wild one.

Q. I had in mind such a thing as was accomplished by the Hoover committee in the United States, I think it was in 1933-34-35.—A. I do not recall what their work was.

Q. Such a study would be useful, even if it depended to some degree upon estimates based on probable expansion of plant capacity and that sort of thing. When I spoke of the Hoover investigation, I think that it was called a National Survey of Potential Product Capacity in the United States. To return to the figures you gave to the committee on Tuesday regarding the increase in volume of currency and bank deposits in those years, I take it that the main idea behind the increase was to match effective demand with our increasing physical

wealth so as to enable Canadians to buy and enjoy this wealth? Is that right?—A. The increase resulted, in the main, in those years from a growing demand for bank loans to finance production in various ways. In other words, it was in response to a demand. It did not in itself create the demand.

Q. Perhaps right here would be a good point, Mr. Towers, to ask you to explain in more or less detail, as you feel, what the objective of the Bank of Canada's monetary policy really is.—A. The objective of monetary policy is to see that in the first instance the banking structure is such that the banks might respond to all legitimate demands made on them, with an eye, of course, to the over-all picture, so that if the demands appear to be so large that there are inflationary influences, one tries to do what one can to modify those demands; but excluding inflationary risks the objective is to see that the monetary system can respond to all those legitimate demands. Secondly, that has its effect not only on the banking system itself but on conditions in the market for securities, particularly bonds, which are dealt in and issued outside the banks.—Q. You said, Mr. Towers, that the increase in currency and bank deposits we are referring to came into existence and circulation largely through credit expansion processes by the chartered banks in making loans for production purposes. Could not one say with accuracy that this method of money creation was and always is arbitrary to a degree? I will explain briefly what I mean by that: that is, there is nothing automatic about it. When the potential producer goes for a loan there is something arbitrary in whether he gets the loan or does not get it?—A. I would not have called it arbitrary if he has a reasonable proposition to make, no.

Q. But there is nothing to say that it would be automatic or even semi-automatic?—A. If the borrower has a decent proposition he will get the loan.

Q. Mr. Towers, would you not agree that there is even a degree of arbitrariness about the extent to which loans may be made?—A. Within the limits of human error, but I would say that it is a very modest limit.

Q. Was this to a degree arbitrary—I will call it again degree—money creation just adequate at all times during the period that you have knowledge of, that is to say, if you will permit me, did it always enable the Canadian people to buy all the wealth we could produce at prices which we considered sound or stable and by that process ensuring the optimum development and use of our natural resources?—A. That would suggest absolute perfection. I do not think one could characterize the situation in that form. I think that, while in my initial statement I expressed the view that we got along relatively well from the point of view of inflation, if there was a defect it was on the side of there being perhaps a little too much money rather than too little.

Q. I would like to refer to the Bank of Canada annual report of February 8, 1946. On page 9 there is a table showing national expenditure in billions of dollars, and then some paragraphs in explanation. I will read those paragraphs immediately following the table:

Trends in these components of national expenditure, taken together, will determine whether or not a satisfactory high level of employment and income can be maintained in the years ahead.

Clearly it is the first two items in the expenditure table, comprising total government outlay, which represented the main driving force behind the very high level of activity which was attained during the war period. Canada's problem now is to expand the other types of expenditure, and particularly domestic private investment and domestic consumption, in order that there will be compensating stimulus as government outlays decline to their post-war level.

On the next page, page 10, one also finds this:

Looking to the future, however, there is no reason for complacency. Most of our real problems of postwar adjustment are still ahead. The backlog of demand will not be large in relation to productive capacity when industry has been fully reconverted and inventories built up to normal levels. When the time lag involved in demobilization is over, government expenditures will fall rapidly. Nor will our foreign lending to finance the purchase of Canadian goods remain indefinitely at the present level. The prevailing optimism on the North American continent is dangerous if it diverts attention from the problems which have to be faced.

Now, from these words it appears that the officials of the Bank of Canada thought that they foresaw a situation developing in the post-war years which did not materialize, largely because of rearmament and the threat of war. Now, as a result of the change in the whole situation, what the Bank of Canada and the government had to concern themselves with in most of those years was strong inflationary pressure?—A. If I may suggest one thing there, Mr. Low, the return to a very high level of rearmament expenditures did not take place until 1950-51, so that the situation in the intervening years was not complicated by that factor. Perhaps I should add one paragraph more to what you have read from the report, and that is:

The destruction, distortion and disorganization which have taken place on other continents are difficult to exaggerate. The present conditions of life in many countries are almost beyond our comprehension. It seems likely that there will be far greater delayed reactions from World War II than from World War I, unless positive steps are taken to prevent this.

That was written in the beginning of 1946, and I would not take it back. It was realized in the United States by 1947 that a catastrophic situation would result unless something was done to prevent it, and then came the Marshall Plan, the effect of which on the world, and Canada, can not be exaggerated.

Q. With the problem of inflationary pressure, the Bank of Canada and the Canadian government had to deal, and to deal very strenuously, over most of those years, and with what the Bank of Canada did during those years I have very little criticism. But we are now coming into a period in some ways like 1949 and 1950, and if peace does return and it becomes possible to reduce defence expenditures materially, then the government and the central bank will have to team up and do some pretty effective work to prevent rather serious trouble. My attention was drawn to a statement on page 5 of a publication called *The Canadian Bank of Commerce Commercial Letter*, February 19, 1954.

The task ahead, and this applies to every segment of the economy, is to maintain economic activity at current levels. Above all else it would seem essential, in this regard, that increasing attention be given to the consumption side of the equation.

Now, Mr. Towers, would you agree with that statement?—A. Yes.

Q. Does Mr. Towers then believe that the Bank of Canada now has all the authority and money mechanisms it might require to halt a down trend or deflation, at or near the point of equilibrium?—A. I do not think for a moment it can be claimed that monetary action will necessarily prevent that result.

Q. As far as monetary action will?—A. Yes.

Q. Would you like to define what you would think a return to equilibrium might be?—A. No. I think I might prefer not to, because after all it would

be personal opinion which would not be worth very much. I think that it must obviously be related for one thing to the level of employment and for another to the situation in the farm sector. Now, how to define what would be the ideal in both those major fields is very difficult. Everyone will have their own view.

Q. Going back to the Canadian Bank of Commerce statement which I just read from their February 19, 1954 letter, what does Mr. Towers recommend as a means of getting purchasing power quickly and directly, let us say, into the hands of ultimate consumers so that they, through effective demand, can do the job of halting a downtrend?—A. There is no easy answer to that, Mr. Low, because it depends upon the following things: the three great factors are the level of capital investment, the level of personal and corporate saving, and the level of exports.

Q. Of course, some monetary action might be taken as well?—A. Monetary action may have a bearing on the level of investment, yes.

Q. If the Bank of Canada felt it had an effective mechanism for stopping a downtrend let us say at a point reasonably close to a point of equilibrium, might our central bank not be more vigorous, in the action it would take to stop inflation?—A. Would you repeat that, Mr. Low?

Q. If the Bank of Canada felt that it had an effective mechanism for halting a downtrend at or near a point of equilibrium, would it not be more vigorous in what action it would take to stop inflation?—A. Do you mean more vigorous on the downside than on the other?

Q. No, more vigorous on the upside.—A. More vigorous in trying to promote the upside?

Q. No, more vigorous in trying to prevent an inflationary trend?—A. Oh, I wouldn't think so, no. I think that the degree of vigour on the other side would be at least equal.

Q. How far does the economic situation have to deteriorate before the government should step in to provide the supplementary action; that is, supplementary to the monetary action which you spoke about on Tuesday while you were being questioned by Mr. Macdonnell?—A. I think that is only a question which the government can answer, Mr. Low.

Q. Well, my only comment on that point is that I think you spoke of a sort of "assist" position which the Bank of Canada takes through its monetary means and that it has to travel in double harness pretty well with government action?—A. Yes.

Q. I will not press that point, I can asked it of Mr. Abbott when he is here, perhaps, but evidently it is not considered—and I do not say this by way of criticism, but by way of observation—evidently it is not considered that that point has been reached yet, although unemployment is now really serious and it is beyond the seasonal degree. However, the question I have, and this is one you can answer, Mr. Towers, is this: when the government does decide to take supplementary action to halt the downtrend, would you agree they should not depend entirely on taxation and borrowing the savings of the people to halt the trend?—A. I do not think I could answer that question, Mr. Low, because a categorical answer—forgive me if I say so—in response to a hypothetical question is a difficult thing to make. For example, if one said the government should have a deficit, the question would be, is the situation and the time such as to necessitate that? How big should it be, and so on and so forth. Therefore, no categorical answer can be made.

Q. But it might possibly be wise to use some credit expansion?—A. The policy of the central bank in the vent of a serious downtrend would encourage, although not guarantee, credit expansion.

Q. I ran across an extract from a broadcast which I believe you gave in 1943, Mr. Towers, entitled "The Shape of Things to Come," in which you made a very interesting answer along this same line.—A. Yes. I was not, however, responsible for the title.

Q. We will blame the C.B.C. for that. At any rate, you were asked this question:

After the war the need will be to encourage private spending. Heavy taxes and public borrowing will be contrary to the public welfare. Will the government finance all desirable public projects by credit expansion when necessary?

and you reply was:

In circumstances such as Mr. Quelch described, I would say that there would be grounds for the government not meeting the entire cost of its programs by taxing and drawing on public savings. The desire would be to encourage private spending and make government investment more of a residual item. If part of the necessary money had to come from credit expansion—and the projects were sound and in the public interest—then I should say go ahead.

Q. That would be your position today, would it not?—A. Yes.

Q. Very good. Mr. Chairman, I have only a couple of questions left.

The CHAIRMAN: Go ahead.

By Mr. Low:

Q. Where the government finds it necessary and wise to finance in that way, by the use of more credit expansion or deficit financing as you suggested, what objections would you have to their borrowing from the Bank of Canada?—A. Borrowing from the Bank of Canada has a more expansive and inflationary effect than borrowing generally in the market or from the banks, so the question there is one of degree. It might be that the business situation was sufficiently unsatisfactory to make it very desirable for the Bank of Canada to have a policy which encouraged credit expansion, but that desirability might relate to a figure of shall we say, \$50 million in so far as additions to Bank of Canada assets were concerned. There is a difference not only in degree but in kind between \$50 million and \$500 million.

Q. Yes, I see that. My final question then, Mr. Towers, is this: would you be able to furnish the committee with a statement of all the government borrowings from the Bank of Canada since 1939?—A. I can, although the overall total is really shown in our statement. You were interested in the borrowings since 1939?

Q. Yes.—A. Well, the increase in that time has been in our holdings on government securities of, speaking from memory, \$1,800,000,000 or \$1,900,000,000. I should have thought, Mr. Chairman, it would be quite useful if we had a statement of that type broken down to show the various elements of that borrowing from the Bank of Canada?

Mr. MACDONNELL: Would you not want the in and out figures?

By Mr. Low:

Q. Well, yes, that would be all right.—A. I think that what I can give, although I do not believe it is entirely relevant, is the issue or issues of which we hold the sum total and which were mainly related to the taking over of our gold and foreign exchange reserves at the beginning of the war. Apart from that, all our holdings of government securities have been bought on

the market or, in the case of treasury bills, at tender. They have gone up and down, mostly up, through the years and of course are shown on our weekly statement and in the statistical summary.

Q. And then, this one final question, Mr. Towers, referring again to that question which I asked about the wisdom of the government borrowing from the Bank of Canada, I believe your answer indicated that it would depend of course on a great many factors; and I would like to ask if the variable cash reserve requirements now in the Act would not take care of that situation?—
A. I would say no, they would not; they are not intended for that purpose and I believe should not be used to serve that purpose.

As a matter of fact, having in mind that the general question has come up, on earlier occasions, regarding the virtue of financing government expenditures by borrowing from the central bank, I put down some notes on it, thinking that my views might be more coherently expressed in that way. It is late now, but if the question is raised again—

The CHAIRMAN: We are not sitting this afternoon and we don't mind sitting a few more minutes now. You may go ahead. Let us take a little time now and complete this line of questioning.

Mr. Low: It depends on how Mr. Towers feels.

The WITNESS: It would only take me about nine minutes.

Mr. Low: Very well.

The WITNESS: On a number of recent occasions I have heard it suggested that there is no reason why the central bank should not advance funds interest-free, or at very low rates of interest, to the government or to municipal governments, for the purpose of financing certain government expenditures. This question in one form or another has been discussed many times in the past but it is so fundamental that I would like to deal with it again at this time in some detail.

Let me say at once that there is nothing new about the central bank acquiring government debt. At the present time the Bank of Canada holds about \$2.2 billion of government of Canada securities, or about 14 per cent of the total outstanding direct and guaranteed funded debt of the government. And it is true that this portion of the total debt costs the government very little since most of the interest paid on it is returned to the consolidated revenue fund in the form of Bank of Canada profits. The amount of these securities held by the bank is the net result of the purchases and sales made by the bank from time to time in accordance with its monetary policy. Undoubtedly the bank will continue to make net additions to its holdings of government securities in this way over the years as the economy expands and credit requirements grow, and to this extent the government will continue to benefit by the low net cost of the debt held by the central bank. However, I must emphasize that in deciding what amounts and what types of government issues to purchase, the bank should continue to be guided solely by monetary policy considerations.

The low net cost to the government of the debt in the hands of the central bank is a by-product of central banking. The counterpart of these central bank assets consists mainly of the Bank of Canada notes which the general public finds it convenient to hold, and the cash reserves which the chartered banks find it necessary to maintain. In other words, the government obtains low-cost money in return for providing through the central bank the very liquid types of assets which the general public and the banks require, and on which they receive no return. But the amount of low-cost money obtained

in this way must be limited to what the general public wants to hold in the form of bank notes and what the chartered banks need to carry in cash reserves.

If we assume that having regard to the monetary conditions at any given time the chartered banks are maintaining an appropriate level of cash reserves and that the requirements of the general public for Bank of Canada notes are adequately met, then there is no case, so far as monetary policy is concerned, for a further expansion of central bank assets by advancing additional funds to the government or by any other means. If, in spite of this, the central bank were to increase its assets by advancing additional funds to the government (or a municipal government) it is of interest to follow through some of the consequences. When the proceeds of the loan were spent the deposit liabilities and cash reserves of the chartered banks would increase accordingly. At this stage the banks would have both the incentive and the means to acquire additional earning assets by way of making loans or buying securities; and in doing so they would of course add to their deposits and thus to the volume of money in the hands of the public. The necessity of making advances to the government under these circumstances would mean that the central bank would lose control of the volume of money and credit.

It might be that the banks could be prevented from taking advantage of the opportunity to expand their assets; their minimum cash reserve requirements could be increased, as I believe has been suggested, so that they would have no cash available on which to base an expansion. Nevertheless, there would still be an increase in deposits equal in amount to the loan to the government, which would tend to have an inflationary effect. While, in the case of a loan which was relatively small and a "once and for all" operation, the objections to the principle of this method of borrowing would remain, the inflationary effects would not of course be significant, but neither would the resulting saving to the government. However, if the government were to borrow from the central bank on the scale which any substantial saving of interest would require, the resulting deposit expansion might have serious inflationary consequences. I would like to emphasize that this would be true even though the "multiplier" effect of an increase in chartered bank reserves were avoided through increases in minimum reserve requirements.

The policy which I have just described would also involve the use by the central bank of the power to increase cash reserve requirements, not primarily for reasons of monetary policy, but in effect to force the banks to make a non-interest-bearing loan to the government. It might be argued, as I believe it has been, that the central bank could be authorized to pay an amount of interest on the additional cash reserves which would cover the bank's costs. But if the government wished to borrow from the banks at any particular interest rate, or interest-free, there is no reason why it should not deal with them directly. The direct procedure has the advantage of making the terms and the cost of the loan known in an open and straightforward manner. By contrast, the complicated system of obtaining a forced loan from the banks by involving the central bank would be very confusing and the public would have great difficulty in understanding the terms and costs of such borrowing.

There are certain costs involved in borrowing from the banking system which must be borne by someone regardless of whether the Bank of Canada or chartered banks make the advance. There are the costs involved in servicing and paying interest on the new deposits, negotiating loans and collecting payments and, under some circumstances, in the loss of liquidity and risk-taking. If, in the case of government borrowing, the whole cost is absorbed by the governments concerned, there is an opportunity to pass on these costs, like

all costs of government, to the public in as efficient and equitable a manner as possible. If governments refuse to accept some, or all, of these costs, the necessary sacrifices are distributed in an unequitable way.

Mr. Tucker asked the other day if I would supply the committee with some figures, as was done at an earlier time, relating to productivity. The best I can do is to table some figures on the gross national product per capita, and the gross national product per person employed, with respect to Canada and the United States, 1938 to 1953 inclusive, but they do not point out the differences in productivity.

By Mr. Tucker:

Q. I take it they are figures of values?—A. They are figures of the gross national product per capita and per person employed, but they do not necessarily show the relative degree of productivity. I believe that there are no statistical means of doing it. One would have to take into consideration the size of the crops in the two countries in the different years, the number of hours worked as well as a variety of other things. This is the nearest to it that I can get.

(See appendix "A")

Q. Mr. Chairman, if I were to indicate to Mr. Towers three of the items that I have in mind, he might prepare a short memorandum on each one and it might save time.

The CHAIRMAN: Yes.

By Mr. Tucker:

Q. One of the items I have in mind is the cost to the Bank of Canada of issuing their \$1½ billion of Bank of Canada notes and keeping them serviced, that is, on a percentage rate.—A. Yes.

Q. And the other item was the reason for the different reserve requirements in the United States as compared with Canada. They have been running about 15 per cent up to 17 per cent, whereas we have been running around 9 per cent or 10 per cent. I was wondering if you might deal with that, if you care to. What is the reason for the differing reserve requirements there as compared with here. You indicated that 8 per cent would probably be a healthy rate for Canada, but that would be approximately half of what they require in the United States at the present time. I wondered if you would deal with that, if you cared to do so; and I think the other matter was the question of the use of the bank re-discount rate which is used in the United States and in the United Kingdom quite considerably, as I understand it, but which is used in Canada only more or less as a psychological factor. I wonder if you would deal with the reason for that situation.

The CHAIRMAN: The committee is adjourned until Tuesday morning.

APPENDIX "A"

EXHIBIT No. 19

Gross National Product per capita
& Gross National Product per Person
Gainfully Occupied, in Canada and the
United States, 1938-1953, inclusive.

		GNP per capita		GNP per person gainfully occupied	
		Canada	United States	Canada	United States
1938	.....	Can. \$ 469	U.S. \$ 652	Can. \$ 1,299	U.S. \$ 1,901
1939	.....	507	697	1,397	1,980
1940	.....	604	767	1,619	2,109
1941	.....	740	948	1,884	2,432
1942	.....	904	1,198	2,161	2,800
1943	.....	948	1,421	2,166	3,060
1944	.....	1,001	1,544	2,288	3,269
1945	.....	982	1,538	2,302	3,349
1946	.....	978	1,493	2,497	3,596
1947	.....	1,097	1,619	2,834	3,913
1948	.....	1,218	1,766	3,154	4,257
1949	.....	1,224	1,731	3,222	4,278
1950	.....	1,328	1,891	3,580	4,655
1951	.....	1,532	2,137	4,149	5,145
1952	.....	1,602	2,217	4,386	5,363
1953	.....	1,640	2,299	4,525	5,644

NOTE: "Persons gainfully occupied" is the total of civilians with jobs and the armed services.

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HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

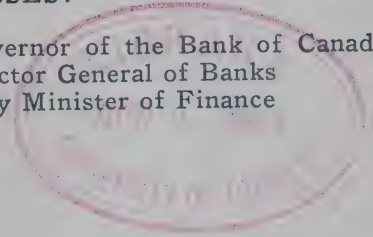
No. 19

Decennial Revision of the Bank Act

TUESDAY, MARCH 30, 1954

WITNESSES:

Mr. Graham Towers, C.M.G., Governor of the Bank of Canada
Mr. C. F. Elderkin, Inspector General of Banks
Mr. K. W. Taylor, Deputy Minister of Finance



EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

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MINUTES OF PROCEEDINGS

TUESDAY, March 30, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Applewhaite, Balcom, Benidickson, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Cameron (*Nainimo*), Cannon, Cardin, Fleming, Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Hunter, Low, Johnson (*Kindersley*) Johnston (*Bow River*), MacEachen, Macnaughton, Matheson, Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Wood.

In attendance: Mr. Graham Towers, C.M.G., Governor of the Bank of Canada; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. A. C. Jensen, Vice-President of the Canadian Bankers' Association and General Manager of The Bank of Montreal; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President of the Canadian Bankers' Association and General Manager of the Bank of Nova Scotia; Mr. John S. Proctor, General Manager of The Imperial Bank of Canada, and Mr. J. N. Gosselin, Assistant General Manager of the Banque Canadienne Nationale.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Elderkin laid on the table the following documents, which are to be found as *Appendix "A"* to this day's evidence:

Exhibit 20: Trust Companies having Directors who are also Directors of Chartered Banks at January 31, 1954;

Exhibit 21: Insurance Companies having Directors who are also Directors of Chartered Banks at January 31, 1954, and

Exhibit 22: Loan Companies having Directors who are also Directors of Chartered Banks at January 31, 1954.

In reply to questions asked by Mr. Low at a previous meeting, Mr. Towers tabled the following documents which are to be found as *Appendix "B"* to this day's evidence:

Exhibit 23: Bank of Canada, Statement of Ways and Means Advances to Government of Canada, 1939 to 1953 inclusive; and

Exhibit 24: Chart showing the Gross National Product and General Public Holdings of Bank Deposits.

Mr. Towers, in response to a request by Mr. Pouliot, tabled the following documents which are to be found as *Appendix "C"* to this day's Evidence:

Exhibit 25: Bank of Canada, Staff at Agencies, December 31, 1953;

Exhibit 26: National Accounts: Estimated Expenditure on Goods and Services (Millions of Dollars), and

Exhibit 27: Cheques cashed against Individual Accounts in Clearing House Centres.

Mr. Towers then made a detailed statement in reply to questions asked by Mr. Tucker, at a previous meeting, in respect of:

- (a) The Cost to the Bank of Canada of its notes in circulation;
- (b) The difference between the ratios which banks in the United States are required to maintain and those which are now being proposed for the Chartered Banks in Canada, and
- (c) The use of the Discount Rate, or Bank Rate, in Canada as compared with the situation in the United Kingdom and the United States.

(See Evidence)

The Committee then resumed the examination of Mr. Towers on his statement on *Post-War Monetary Policy*.

At 1.05 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Adamson, Balcom, Bennett (*Grey North*), Boucher (*Restigouche-Madawaska*), Cameron, (*Nanaimo*), Cannon, Cardin, Dumas, Fleming, Fraser (*Peterborough*), Hanna, Hellyer, Huffman, Hunter, Low, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, Monteith, Noseworthy, Pouliot, Quelch, Robichaud, Tucker, Weaver, Wood.

In attendance: Same as at the morning sitting.

The Committee resumed and completed the examination of Mr. Towers on his statement on *Post-War Monetary Policy*.

Mr. Towers was retired, subject to recall.

Mr. K. W. Taylor, Deputy Minister of Finance, was called and made a statement on:

- (a) The operation of the Farm Improvement Loans Act, and
- (b) The Banker-Customer relationship between the Chartered Banks and the Government.

(See Evidence)

At 5.35 o'clock p.m., the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, April 1, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MARCH 30, 1954,
11.00 A.M.

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Elderkin has a few exhibits to file.

Mr. ELDERKIN: Mr. Chairman, at the request of several members of the committee I am filing three statements: one, a list of the trust companies having directors who are also directors of chartered banks as of January 31, 1954; two, a list of insurance companies having directors who are also directors of chartered banks as of January 31, 1954; three, a list of loan companies having directors who are also directors of chartered banks as of January 31, 1954.

(See Appendix "A")

The CHAIRMAN: Our witness today will be Mr. Towers.

Mr. G. F. Towers, Governor of the Bank of Canada, recalled:

The CHAIRMAN: Mr. Towers has a few answers to questions which were asked of him at our last meeting.

The WITNESS: At the request of Mr. Low I am submitting a chart showing the trend in gross national product and general public holdings of bank deposits for the years 1926 to 1953. 1926 is the earliest year for which reasonably good G.N.P. figures are available. The figures have been charted on a current dollar basis and also on an adjusted basis. The adjusted basis has been arrived at by deflating the current dollar figures by the implicit price index applicable to G.N.P.

Mr. Low also asked for a chart showing the ability of the economy to produce but, as I indicated before, I am afraid we do not have the ability to produce the chart in a form which would be useful to the committee. The result would, of course, depend on whatever assumptions one cared to make about such things as productive capacity, the number of people who would seek employment under varying conditions, hours worked, rates of improvement in technology, rates of discovery of new resources, external conditions and so on.

Finally, Mr. Low asked for a statement of all the government of Canada borrowings from the Bank of Canada since 1939 and I am submitting a statement of ways and means advances to the government from 1939 to the present. So far as our security holdings are concerned, however, it is not possible to select certain issues or parts of certain issues and say that they represent direct lending to the government. I mentioned earlier that at the time the bank's gold was transferred to the exchange fund account we acquired certain securities directly from the government. However, these have matured and have been refunded by other issues and have completely lost their identity in the mass of our purchases and sales. Therefore, I come back to my earlier answer, that is, that the only measure of the extent to which the Bank of Canada has financed the government through the purchases of securities is the total amount of those securities held by the Bank of Canada. On March

24, 1954, the statement shows total holdings of \$2,218 million, an increase of almost \$2,000 million since the end of 1939, of which about \$290 million represented a shift from holdings of gold and foreign exchange to holdings of government securities.

Shall I proceed, Mr. Chairman?

The CHAIRMAN: Yes, please.

The WITNESS: In response to Mr. Pouliot's request, I am submitting a table showing the number of staff at the agencies of the Bank of Canada and a table showing the various categories and total of gross national expenditure for the years 1945 to 1953 inclusive.

Mr. Pouliot also asked for the figures for bank clearings from 1946 on. The publication of these figures by the Bureau of Statistics was discontinued in 1943 and I am submitting in its place a table showing the total value of cheques cashed in clearing house centres.

The CHAIRMAN: That is the last answer?

The WITNESS: Yes.

Mr. Tucker asked me to comment on three subjects.

The first one was the cost to the Bank of Canada of its notes in circulation. If you take those expenses which are directly related to the issue of currency and a pro-rata share of general operating expenses, the cost of the note issue in 1953 works out to $\frac{1}{5}$ of 1 per cent of the average amount in circulation.

The second subject which Mr. Tucker asked me to discuss today related to the difference between the reserve ratios which banks in the United States are required to maintain and those which are now being proposed for the chartered banks here.

In dealing with this question, the main point I would like to make is that, even with the existence of substantial structural differences in the two banking systems, the actual difference between the two sets of reserve requirements, after adjustments have been made to put the cash ratio figures on a reasonably comparable basis, is really quite small.

Before comparing these reserve requirements, I would like to refer briefly to some of the important differences between the two banking systems, each one of which, taken by itself, would tend to produce some difference in the level of reserves which banks themselves would wish to maintain.

(1) As you know, a major difference is that the United States has a unit banking system with 14,509 separate banks, at the end of 1953, whereas we have the branch system.

(2) In Canada only a very small proportion of total deposits are liabilities of institutions which do not keep reserves with the central bank. However, in the United States, banks which are not members of the Federal Reserve System accounted, at December 31, 1953, for 46 per cent of total banking offices and 27 per cent of total deposits, other than inter-bank deposits. Although non-member banks hold reserves in the form of balances with one another and with member banks, the only reserves of the banking system as a whole are those of the member banks.

(3) The proportion of total deposits which takes the form of notice or savings deposits is very much higher in Canada than in the United States. However, it is difficult to judge how much weight should be attached to this difference owing to the fact that in Canada notice deposits are in practice payable on demand and, I believe, this is also usually true in the United States. Nevertheless it is probably the case that individual Canadian banks have a relatively larger hard core of savings deposits which they can count on retaining than the American banks have.

(4) While the Canadian chartered banks are allowed to count Bank of Canada notes in their tills as part of their cash reserves, the Federal Reserve member banks are not allowed to include the Federal Reserve notes in their tills.

In comparing the cash reserve ratio figures it is possible to allow for some of these differences. On the basis of the December 1953 distribution of deposits between the three categories of Federal Reserve member banks, Central Reserve City, Reserve City and Country, and between demand and notice deposits, the maximum and minimum reserve requirements of the member banks as a group work out to approximately 16 per cent and 8 per cent, respectively, of total deposits excluding inter-bank deposits. But as I mentioned, member bank reserves are the only real reserves of the whole banking system; and for the deposits of the whole system the Federal Reserve member bank requirements work out to maximum and minimum ratios of 11.4 per cent and 5.7 per cent, respectively. However, before comparing these ratios with the proposed chartered banks' maximum and minimum requirements of 12 per cent and 8 per cent, respectively, it is necessary to add to the U.S. figures Federal Reserve notes in tills and this would raise their ratios to about 12.9 per cent and 7.2 per cent. Finally, if one were to substitute the Canadian percentage distribution of deposits between demand and notice for the U.S. distribution, their ratios would be somewhat lower, but as I have already indicated, it is difficult to say what allowance should properly be made for this difference.

It remains true, of course, that the U.S. banking system taken as a whole is currently maintaining a somewhat higher cash ratio than the Canadian chartered banks. At December 31, 1953, the ratio of the total of member bank deposits at Federal Reserve banks and Federal Reserve notes in the tills of all banks to total bank deposits, other than inter-bank deposits, was about 12.5 per cent, whereas the chartered banks' cash ratio averaged 10.2 per cent in December. This difference is mainly due to the fact that the reserve ratio which Federal Reserve member banks are required to maintain is still quite close to the maximum. The committee may recall that in 1936 and 1937, in order to sterilize part of the substantial increase in reserves, which arose from the inflow of gold, the reserve requirements were raised to the maximum. Since that time they have never been very far below it.

Finally, Mr. Tucker asked if I would discuss the use of the discount rate, or bank rate, in Canada as compared with the situation in the United Kingdom and the United States.

Borrowing from the central bank is one of a number of courses of action open to a bank in the event of a sudden or unforeseen drain on its cash reserves. If the bank concerned believed the loss of cash to be the result of a very temporary situation it might be content to take no action and allow its cash ratio to fall below its target level for a short time. If it operated in a well-developed call money market its first step might be to call part of its loans to that market. If it had treasury bills or commercial bills maturing in the next day or so it might simply refrain from replacing them with new bills. Or it might sell bills or bonds in the market. Finally, in some countries, the bank might borrow from the central bank. What the commercial bank decided to do would depend on what was most convenient or least expensive, having regard to the type of assets it held and the financial system to which it belonged. If the bank had already reduced its liquid assets to a minimum position it would no doubt go to the central bank. But this would not necessarily be the only circumstance in which the central bank's lending facilities would be used since a bank with a plentiful supply of liquid assets might attempt to borrow if that appears to be the least expensive course open to it.

In the United Kingdom the trading banks do not borrow from the Bank of England. When a bank finds itself short of cash its first step is to reduce the amount of its funds employed in call loans. At the same time, it is possible that other banks have gained cash and are therefore increasing their money-market lending so that the total supply of funds of the market is not reduced. However, if money is tight and banks as a group are withdrawing funds, the market may be forced into the bank, that is, the discount houses may have to borrow from the Bank of England at the bank rate. As the committee will readily understand, this system depends on a more highly developed and specialized money market than we have had in Canada.

In the United States, there are so many banks that I suppose all the possible courses of action which I have outlined are constantly being used. Banks may borrow directly from the federal reserve banks. Some borrow because a shortage of liquid assets forces them to do so; others probably find that in some circumstances such borrowing is the least expensive way of obtaining cash.

In Canada, the chartered banks have borrowed from the central bank on few occasions. I think there are a number of factors which explain this experience. With a branch banking system and relatively few banks there is not likely to be the same range of differences in the liquid positions of individual banks as one would find among the very large number of banks in the United States and, therefore, there is not the same need to borrow from the central bank. It is also possible, I think, that our banks as a group may have allowed larger swings to take place in their cash ratios than in the case of banks as a group in the U.K. or U.S. The last point I would mention in this connection is that there has been in Canada, as in other countries, some reluctance on the part of banks to become indebted to the central bank in case this action would be interpreted by the public as a sign of weakness. And, of course, with only a few banks, such indebtedness is much more likely to be noticed than in a country with a very large number. Whatever the reasons, the chartered banks have generally preferred to obtain cash by selling treasury bills or other short-term securities. During the rather brief history of central banking in Canada the chartered banks have been rather well supplied with marketable securities owing mainly, before the war, to the expansionary policy of the central bank, and since that time to the financing of the war.

There are times, I think I should say, when it might be a good thing if the chartered banks were a little less reluctant to borrow from the Bank of Canada. In appropriate circumstances, it seems to me that this procedure would be in the interest of the chartered banks, the central bank and the securities market generally. Incidentally, I have been encouraged by recent developments in this connection. Before leaving this point I would like to emphasize that there is absolutely no reason to regard temporary borrowing from the central bank as a sign of weakness.

To return to Mr. Tucker's question, it is true that for the reasons which I have mentioned the bank rate in Canada has not really been effective as a rate of interest and has been used, as he indicated, more as a signal of a change in monetary conditions.

The CHAIRMAN: Mr. Noseworthy?

By Mr. Noseworthy:

Q. Mr. Towers, in the statement you gave us of the post-war monetary policy you review the various monetary policies that were followed in order to

curb inflation in the years immediately following the war and then the restrictive fiscal measures which were introduced in 1950 and 1951. My question is, were there any further monetary policies that the Bank of Canada could have adopted during those early years to have rendered unnecessary the strict fiscal policies which had to be adopted in 1950 and 1951?—A. Well, as my answer has to relate to the exact form of the question, I find it a little difficult to interpret the word "strict." It is true during a number of the post-war years that the fiscal policy pursued resulted in the government being able to pay off quite substantial amounts of debt. Therefore, I have to ask myself, does any paying off of debt represent a strict fiscal policy?

Q. Then you would say that as far as the Bank of Canada was concerned, there were no measures that it could have taken during those immediate post-war years to have checked inflation more than it did?—A. For the reasons which I expressed in my initial statement, I believe that the external influences on our price level were such that no feasible central bank policy could have kept the price level distinctly below where it actually went. As I also indicated then, expressing a personal view, it would certainly have been possible to have had a central bank policy and fiscal policy which would have encouraged a much higher price level than we actually did have. It really is impossible to say whether a fiscal policy which was of a character that produced no paying off of debt would have left us with a distinctly higher price level than we now have. Certainly it would have had a tendency in that direction.

Q. Would you care to express an opinion as to whether or not these restrictive fiscal measures which were introduced in 1950 or 1951 would have prevented the price level rising as it did had they been introduced earlier? Is that a fair question for a banker to answer?—A. Well, Mr. Noseworthy, it is very difficult to single out individual measures within the field of fiscal policy and individual years, and express a view that has any value. I think all I could say is that whether it was a product of monetary policy or a product of fiscal policy or a result of the productive capacity of Canada and the working ability of her people, the net result as of today is that our price level has risen slightly less as compared with pre-war than that of the United States, and a good deal less than most of the countries of the world.

Q. I notice in this statement that you lay a great deal of emphasis on the influence of the price structure in the United States upon Canada?—A. Indeed, upon every country in the world. I lay emphasis on its influence on the price structure of every country in the world, excluding the totalitarian states.

Q. As a matter of fact, I think you pointed out, did you not, that these restrictive measures we took in 1950 and 1951 were made necessary because of the prices rising in the United States?—A. Following the outbreak of hostilities in Korea there was, of course, an inflationary surge all over the world, so there were domestic factors contributing to that in Canada, of course, as well as external factors.

Q. I would not attempt to contradict anything you have said regarding the influence of American prices on Canadian prices, but your Bank of Canada statistical summary of 1951 supplement which gives wholesale prices shows that the index was the same from 1935 to 1939 in both Canada and the United States. I notice that from, let us say, 1940 to 1945 our wholesale price index was well ahead of the United States?

There were three years, 1946, 1947 and 1948, during which theirs were slightly higher than ours, but not very much—just a matter of a few points. Then, from 1949 on, our wholesale price index has gone much higher than the United States. I have worked out here, from the United Nations statistical year book, these comparisons: if you take the years 1946 to 1950 and take the average for these years with the 1948 index as 100 as the United Nations statistics reveal,

the increase in the United States from 1946 to 1950 was 32 per cent, the increase in Canada was 51 per cent. If you take the years 1946 to 1952 on the same basis, the increase in United States wholesale prices was 43 per cent and Canada's increase was 63 per cent. If you take the years 1948 to 1950 only, on the same basis the United States had a one per cent decrease in wholesale prices and Canada had a 9 per cent increase. If you take from 1948 to 1952, the United States has a 7 per cent increase and Canada has a 17 per cent increase in the wholesale prices for the same period.

I just do not see how the higher prices in the United States could have had such an effect upon Canada when apparently all down the line, with the exception of three years—for I will admit there was then a slightly higher increase in United States wholesale prices than ours—but with that one exception our prices were higher than those of the United States. As a matter of fact, James P. Lyons, the regional director of the New York, northern New Jersey and the United States office of price stabilization reported on October 24, 1951 that Canada had seen her average retail price level rise almost 9 times as fast as it did in the United States after January 1951. Now, do you wish to comment on that?—A. Yes, I think I could comment on that. As you can understand, I have not been able to retain in my head all the many comparisons which have been made between the various years. I do think that a better perspective is obtained by comparing our situation here and in the United States as it is at present with the way it was in pre-war years. However, I think that it will be recalled that I never suggested that domestic influences could not give an upward push to the price level. What I did say was that I thought at a given exchange rate that the United States price level was about the minimum which we could expect to have. I said that the maximum was the sky. Therefore, there have no doubt been occasions in these last 15 years when domestic influences or changes in the exchange rate put more upward pressure on prices in Canada than in the United States. The year 1949 is a case in point. In that year, the Canadian index of wholesale prices went down only about one and one-half per cent, whereas in the United States it went down nearly 5 per cent. That was the year, if you will remember, of the so-called recession in the United States, whereas in Canada business was maintained throughout the year at a very high level. It is probable that we had certain inflationary pressures in Canada during that year, whereas the United States was tending for a while in the other direction. What could have been done about it, I am not too sure. Then, of course, in September, 1949 the comparison between the two price levels was affected by Canada returning to a discount of approximately 10 per cent in terms of U.S. dollars and that does have an effect on our price level, and that effect would be gradually evident throughout 1950 and 1951. Therefore, either because of differences in the course of business or because of changes in the exchange rate, there have been varying circumstances in certain years of the post-war period. But I do come back to this, which is a fact, that if you take the period from 1938 to 1954, the statements which I made at my initial appearance before this committee hold good.

One final factor: although I have not got the statistics in my head, it is true to say that in every year, I think, and certainly in the great majority of the years of the post-war period, the percentage of gross national product devoted to capital investment in Canada has been distinctly higher than in the United States so that the pressures on us of an inflationary character have, by the same token, been greater.

Q. Just how do you account for the greater increase in prices in Canada than in the United States after the year 1951?—A. Look at the figures.

Q. The price level in Canada rose much more rapidly after 1951 than it did in the United States.—A. I have the annual average of wholesale prices

in Canada in 1951 as 235, and in January, 1954 as 215. Is it not the case that the average of wholesale prices has declined more in Canada since 1951 than in the United States?

Q. But in the years immediately following 1951—1952 and 1953—our prices rose higher than theirs?—A. No, our prices were going down.

The CHAIRMAN: Gentlemen, on page 802 of the evidence you will find a table which will assist you in following the evidence.

By Mr. Noseworthy:

Q. You would give credit to the fiscal measures that were introduced in 1951?—A. I would not give credit to any one thing. I would refer, first of all, to the exchange rate which in 1951 would have averaged 105.28 for the U.S. dollar and in 1953 was 98.34. That undoubtedly has a bearing on the thing.

The CHAIRMAN: Gentlemen, you can refer to page 805 of the evidence.

By Mr. Noseworthy:

Q. You say that our wholesale prices declined faster than they did in the United States?—A. For the period between 1951 to the present day, yes.

Q. From 1948 to 1952?—A. I could find changes to suit all circumstances, Mr. Noseworthy.

Q. That's the trouble!—A. But it is the case for the reasons I have mentioned, and particularly because of changes in the exchange rate, there have been ups and downs in the relative positions of the two price levels since the end of the war.

Q. How much credit would you give to the fact that the United States reintroduced price control in February, 1951?—A. Of course, the committee will realize I am expressing a purely personal opinion which may not be worth a tinker's curse. I would not give any credit to the introduction of price control in the United States subsequent to the commencement of the Korean affair. I would give some credit to the introduction of wage control. Now, the introduction of wage control was not possible, politically speaking, without the introduction of price control. I do believe, although this is something which could not be proved, that that resulted, in the following two years anyway, in a somewhat lesser increase in wage rates in the United States than would otherwise have taken place and that the freedom of the system here resulted in a somewhat greater increase in wage rates than might have taken place under the other circumstances.

Q. Have you volume one of the proceedings of this committee of ten years ago? I would like you to turn to page 723.

Q. In the fourth paragraph there we were discussing a situation probably not very unlike the situation which developed in Canada in the post-war years when there were increased deposits and money in the hands of the Canadian people and when this money was released suddenly for the purchase of goods. I asked you then the following question:

Q. Is there, for instance, any danger that immediately following the cessation of hostilities the increased deposits and the money now in the hands of the Canadian people may be released suddenly for the purchase of goods that have been withheld from purchase during the war? There is evidently a danger of that. What control has the Bank of Canada over that situation?

Your answer was:

A. Oh, none, because we cannot control millions of human beings who have money in their possession. To the extent they try and spend it in greater quantity than there are goods available then only direct control will keep things in order.

Q. Are you still of the same opinion?—A. I am still of the same opinion in relation to the period to which reference was being made in this question, that is the immediate post-war period. In so far as the period commencing in 1950 is concerned, as I said in my initial statement, the assumption which seems to me had to be made in 1950 was that we were facing a long period of cold war and high defence expenditures but that in so far as the general domestic situation was concerned it was one of peacetime. The degree of success attained by widespread controls in peacetime is, I think, very much open to question. There is, at the same time, this other factor in the situation—and here again I am going far out on the end of a limb in speaking of a situation in another country—the operation of price control in another country, which shall be nameless was, I think, extremely loose although it involved an enormous amount of paper work. They seem to have the faculty of going in for and trying this and that and the other thing. They may fail and the fellow who is in charge moves off and someone else comes in and somehow or another they rattle on. I believe that a highly unsuccessful—and I will refrain from saying phoney—but perhaps casual effort to introduce price control in a country such as Canada would have brought it into disrepute much more quickly than it was brought into disrepute in the other place.

Q. You would not say that Canada's price control during the wars was casual or phoney?—A. I think it was highly effective, but the circumstances which would have made it highly effective in 1950 were not there. I would think—and again this is purely a personal opinion—in a country such as Canada, if it cannot be effective it is better not to have it at all.

Q. What in your opinion would have been the effect of continuing through 1949 and 1950 some of the price controls we had maintained during the war?—A. Reimposing them in 1949?

Q. No, to have retained them?—A. I believe that with the exception of rent control they disappeared sometime in 1947, did they not?

Q. They began to disappear in 1947.—A. I think that they practically had all gone because Mr. Donald Gordon came back to the bank about April, 1947 and Mr. Taylor, I think, presided at the final winding up. I think he would agree it was pretty well wound up by the spring of 1947.

Q. I suppose the whole question whether that was done opportunely or not would be outside your field?—A. Well, it should, I suppose, but really I do not think it could be a matter of much controversy to say that once the United States completely abandoned their controls, first of all in the summer of 1946 and then with a slight reversion finally wound up in the autumn, from that moment on it was a rearguard action in Canada, could not be anything else and could not last long.

Q. In other words, we could not maintain price control in Canada unless the United States maintained price control there?—A. I could perhaps spread it out a little wider than that. The efficiency of the Canadian price control during the war depended very heavily upon being able to maintain with few compromises the ceiling at which the control started. Unless the thing was quite clear-cut, the public was in no very good position to know whether or not people were observing price controls, because if authorized prices are constantly changing, the situation becomes so confusing the public does not know where they are at. It was possible to maintain that ceiling very strictly, sometimes with the aid of subsidies, but only possible because with few exceptions the price level in our supplying countries was not rising distinctly more than ours so that with a great struggle and with comparatively few exceptions the ceiling was maintained. Now, as soon as you come to a situation where the vast amounts of goods we import are rising in price

then the ceiling approach becomes completely impractical and you have to return to the approach of authorizing a price of \$8 per dozen today and \$9 per dozen tomorrow and \$12 the next day—confusion utterly confounded.

Q. You will admit that regardless of what we were able to do, after the Americans had abandoned their price control we were successful in first initiating price control and giving the U.S. a good example of what price control could do during the early years of the war.—A. Well, that is not a modest statement, but I think it is a good one.

Q. And consequently you will admit, I think, there are some occasions when we should set an example to the United States instead of following theirs?—A. Oh, but they departed from their controls without any glance at what was being done up here and once they had completely given them up no example of ours would ever have brought them back.

Q. But, I am thinking of what you said of the necessity of our following their example at that time?—A. In giving up controls?

Q. Yes.—A. I suggest it was not possible to have an overall ceiling control as soon, or shortly after, they gave up theirs.

Q. I just cannot understand why we could not do that after they had abandoned theirs as well as we did it before they introduced theirs?—A. But our overall ceiling control was introduced in the autumn of 1941. If the United States had not gone into the war and then introduced controls down there, we would never have been able to maintain effective price control here. Canada took a chance in the autumn of 1941 but that chance would not have been successful if it had not been for Pearl Harbor.

Q. Would you say we took a chance in 1941, knowing it would not be successful?—A. Oh no! I think by the autumn of 1941 that—well, this would involve making predictions in regard to Japanese action so I had better steer clear of it.

Q. It is only as a result of what has developed since then that you now assume our price control structure of 1941 would not have been successful had it not been for the fact that the United States followed suit?—A. Anyone who made plans in the autumn of 1941 on the assumption that the United States would not be in the war was in a sorry case.

Q. I want to turn now to the other aspect of your policy here 10 years ago when we were meeting in this committee. We were looking back then upon a period of depression and spent a good deal of our time discussing what we could do through the policy of the Bank of Canada to prevent a recurrence of 1930's. In the course of that review, the question came up as to just what the situation was in 1930 regarding the making of loans, and I remember, Mr. Towers, that you and representatives of the banks all claimed that during the 1930's the chief difficulty in lending money was that nobody wanted to borrow money and it was not that the banks did not want to lend it.

I recall the farmers coming down here and saying that the farmers wanted to borrow money during the thirties but were not able to do so because the banks were not able to lend, but I think the unanimous opinion of the bankers is that that was not a true picture of the situation. The fact was that people just did not want to borrow money, and there was nothing the Bank of Canada or the bankers could do to invest the money that was then available for investment. Now, there are some misgivings at the present time, such as the increase in unemployment and so forth, which must give us some concern. Regarding the immediate future, what can the Bank of Canada do in the event of a recession to insure that money available is invested?—A. The Bank of Canada by contributing to a condition of ease in the money market, and with a certain lowering of interest rates on fixed interest securities which always accompanies an easy condition in the market, can ensure that those who have credit standing

find it easy and reasonable to borrow, but it cannot ensure that the level of borrowing and capital investment will just for that one reason be high. It can see that it is encouraged and that there is no financial impediment, but it cannot force a certain result nor can the banks.

Q. We will be exactly in very much the same position that the bankers claim we were in the thirties. There may be plenty of money available for investment, but people either will not have good credit standing or those who have a good credit standing may not be planning property deals on investment?—A. We will only be in the same situation if all other things are the same, and I hope they will not be.

Q. Well, if unemployment continues to increase as it has been doing, both seasonal and year-round, and a period of deflation sets in and firms go bankrupt as they are now reported to be doing in many cases, just what effective measure can the Bank of Canada take?—A. In reply to an earlier question I have stated what the Bank of Canada can do and that is its limit. There is nothing else that the Bank of Canada can do. I am sure it would be outside my scope to suggest or to say what constructive measures could be taken internationally or domestically in a field other than a monetary one, to try and prevent such a situation as you have in mind, Mr. Noseworthy. That is a matter for governments and I say that in the plural because I am looking around the world.

Q. What is your opinion of establishing some form of investment board under the direction of the government to direct investments or to encourage investments in a period of deflation?—A. I think, Mr. Noseworthy, that question gets me quite outside my field and into the field of philosophy as well as economics.

Mr. FLEMING: You can expect anything around here.

By Mr. Noseworthy:

Q. In other words, that does not come into the field of the Bank of Canada?—A. The Bank of Canada must try to operate effectively under whatever system the government of the day decides upon.

Q. And you think that the set-up of such an investment board would be entirely a matter of government policy?—A. Yes.

Q. And you are not prepared to give us a personal opinion on whether if such a board were set up, it would be helpful?—A. In order to maintain my purity I must not have a personal opinion.

The CHAIRMAN: Thank you, Mr. Noseworthy. Now, Mr. Adamson.

By Mr. Adamson:

Q. I would like to ask Mr. Towers if the call money rate for broker loans in the summer of 1929 rose to about 20 per cent?—A. I think it did.

Q. And do you know the high?—A. According to my recollection that was about the effective high, although there may have been some still higher rates.

The CHAIRMAN: Now, Mr. Quelch.

By Mr. Quelch:

Q. During the latter part of the last session of the committee Mr. Low asked a question whether or not you would agree that under certain circumstances it might not be wise for the government to finance by an expansion of credit rather than to depend entirely upon borrowing from the savings of the people or by taxation. I think that is to be found at the top of page 836 of the evidence. And you agreed that under certain circumstances that might be true. Then Mr. Low asked you whether under certain circumstances it might be wise, or rather he asked if you would object to the government borrowing from the Bank of

Canada in a situation of that kind. And at the end of the sittings you placed an answer to that question on the record; I would like to ask you one or two questions in relation to that statement.

On page 838 you said:

It might be that the banks could be prevented from taking advantage of the opportunity to expand their assets; their minimum cash reserve requirements could be increased, as I believe has been suggested, so that they would have no cash available on which to base an expansion. Nevertheless, there would still be an increase in deposits equal in amount to the loan to the government, which would tend to have an inflationary effect.

If a decision had been reached to finance in part by monetary expansion, the question which comes up is this, whether you finance through the chartered banks or through the Bank of Canada. In that case surely it makes no difference whether you finance through the chartered banks or through the Bank of Canada, because in either case you will have that increase in bank deposits to which you referred in the statement. To that extent it would be no more inflationary to borrow from the Bank of Canada than to borrow from the chartered banks provided you made provision for increasing cash reserve requirements to prevent the chartered banks using that increase in cash reserves to multiply their loans.—A. Yes. I really gave my opinion on the whole matter in reply to the question by saying that financing through the Bank of Canada and then making sure that the multiplier effect was removed by increasing the amount of cash reserve requirements of the banks was in fact either an interest-free or a cheap forced loan by the banks to the government. I think I went on to say that.

Q. Why did you use the term "forced loan"? There is no loan being made by the chartered banks. Do you not mean that they are forced to service deposits free of charge? It is not a loan by the chartered banks, is it?—A. It is in this sense: That the loan takes the form of increased deposits with the Bank of Canada which they could not use. For example, when you have a deposit with a commercial bank I think it is perfectly fair to classify it as a loan from you to the commercial bank which is evidenced by their acknowledgment or whatever form it takes, rather than in the form of some certificate.

Q. Oh yes. A loan by the Bank of Canada to the chartered banks is something which they can use, but that is not the case with a loan by the Bank of Canada to the government.—A. If the government financed through the Bank of Canada then that would increase the deposits of the chartered banks with the Bank of Canada and it is in my phraseology a loan from the chartered banks to the Bank of Canada interest-free.

Q. But actually the Bank of Canada does not borrow from the chartered banks?—A. The government borrows from us and we in turn borrow from the chartered banks because we have a liability to them for those deposits. That is a loan, no matter what difference in technicality there may be. It is a loan pure and simple.

Q. Yes, but in so far as the government is concerned it is not a loan by the chartered banks to the government. I am keeping in mind the transaction in so far as the government is concerned.—A. Yes. The government borrows from us and we in turn borrow from the chartered banks. We are in the middle. That is what I suggested in my answer to the question the other day. I do not think there is anything to be gained by beating the devil around the stump. I think the correct procedure would be for the government to get a loan from the chartered banks.

Q. That statement intrigues me very much. You say that if the government wishes to borrow from the chartered banks at any particular interest rate or interest-free, there is no reason why they should not deal with them directly. Is there any reason why the government should not get an interest-free loan from the chartered banks?—A. It has happened occasionally in other countries, but there is an important psychological difficulty in respect to it. If the government does it through the central bank, the effect of it is not very well understood by the public. But, if the newspapers should come out with head lines that the government was going to insist upon a very large interest-free loan, a forced loan from the chartered banks, that would attract the attention of the public and probably cause considerable concern.

Q. But on the other hand people might say that the chartered banks were merely being patriotic.—A. I think their reaction would not be determined by the extent to which they thought the banks were being patriotic with other people's money, that is, with their money. I believe they would be thinking about their own situation and would decide that if there was going to be patriotism, they would prefer to exercise it in their individual capacity.

Q. It is probably true that very few people would realize that it was a loan by monetary expansion.—A. I think that would be much more likely to be the result or the possible conclusion than if the thing were dressed up by financing through the central bank.

Q. What you fear really is that if you start with a procedure of that kind it might go too far?—A. I would not want to appear to be standing in the way of a good thing such as a glass of coca cola for fear that someone would drink a case of it. Let me put it this way: One can take almost any one of these propositions and by reducing it to a small enough scale say: Well, it would not do very much harm. But in that case what one is discussing is not a broad new approach which is a solution to the problem, and I do not think a broad approach in the field you mention is a solution. One is simply discussing one glass of coca cola.

Q. But you have to keep in mind the fact that we are only suggesting this procedure to the degree necessary to finance government expenditures where it would not be wise to increase taxation or to increase borrowing the savings of the people.—A. You are assuming of course that the government requires the money and is going to use it, and that it is going to use it to cover something additional in the budget or for capital expenditure so that the whole question comes down to this: Assume that a government in this country which had decided on such a policy could obtain funds. The question then becomes how much interest do they pay, no more and no less.

Q. And whether the debt is going to be repaid in the near future or only repaid when the money becomes redundant in circulation and would have to be withdrawn.—A. Oh, the government has never been known to repay debt in poor times.

Q. What is that again, please?—A. I said that the government has never been known to repay debt in poor times.

Q. No. It would not be logical, would it?—A. No.

Q. The main fiscal objection to the proposal is contained at the bottom of the page where you refer to the fact that there is a problem involved in servicing the new deposits and so on, and that under such circumstances—that is at the bottom of page 838—that is your main objection in so far as the actual transaction is concerned, namely, that you are asking the chartered banks to service deposits for which they get no payment.—A. No. My main objection would be following a course of action which if conducted on a large scale would be inflationary and deciding on that course of action for reasons which I consider to be irrelevant, that is, reasons which are mainly related to interest saving.

Q. Your objection is that it would be done without interest, but in so far as the inflationary aspect of it is concerned, you will agree that it could be inflationary either way, whether you borrowed from the chartered banks or from the Bank of Canada by expanding credit?—A. Assuming that the borrowing takes place from the Bank of Canada we could raise the minimum cash reserve ratio of the chartered banks. That is your assumption?

Q. Yes. I do not know whether you have commented on the Municipal Improvements Assistance Act.

The CHAIRMAN: Perhaps you might leave that for the deputy minister.

By Mr. Quelch:

Q. I have just one other question to ask Mr. Towers. Would he explain what our connection is with the bank for international settlement.—A. What it has always been, none.

Q. None?

The CHAIRMAN: Now, Mr. Tucker.

By Mr. Tucker:

Q. I have just one question arising out of an answer which you made to Mr. Quelch. You said that no government repays a debt in bad times.—A. By the way, I should have phrased my answer more carefully. They meet their obligations naturally, in respect to maturities or whatever it may be; but in "poorish" times they would likely refund them, so that there is no net reduction in the debt.

Q. What I have in mind is the desire of so many people in the thirties, who were responsible for government financing, to balance the budget and meet all outstanding interest obligations and so on, which certainly was the wrong attitude to take. I think from the standpoint of fighting against deflation, was it not?—A. I think that the meeting of interest obligations was a very necessary and proper thing; but whether there was undue fear at that time in regard to the deficits, I would not like to say.

Q. Well, at this stage, Mr. Towers, you still would hesitate to say whether it was or was not very wise for the federal government in the days of the early thirties deliberately to follow a policy of governmental deficits in order to replace the purchasing power that was not in the hands of the people?—A. I do not think that a categorical answer to the question is possible from me because there have to be too many qualifications. I think that is one of the nice questions to which the governmental representatives should address themselves.

The CHAIRMAN: Why not leave it for the historians?

Mr. TUCKER: It is not a matter for the historians. I understood that we have accepted the idea to some extent of paying our governmental debts in good times with the idea of going into debt in bad times in order to balance the economy. I understand that we had accepted that as a policy.

The CHAIRMAN: That is not the question you asked the witness.

Mr. TUCKER: Yes it is.

The CHAIRMAN: No, No.

Mr. TUCKER: Oh yes.

The CHAIRMAN: You did not say "balance the economy". You were asking about balancing the budget which is different from balancing the economy.

Mr. TUCKER: No. If you, in bad times, insist on balancing the budget you are taking as much from the people by way of taxation as you are proposing to pay out, so that you are not doing anything to balance the economy.

Q. I understood that we had accepted the view or that it was a feature of our policy to combat inflation to deliberately to return more purchasing power to the people than we took from them in taxation. I thought that was accepted now as part of our monetary management. Was I wrong?—A. I think there could be certain circumstances in which a government would not be going too far in incurring some deficits, but to suggest out of hand that there is no limit to it, or that it is always a good thing would be going much too far.

Q. I did not suggest that. I suggest that it was the fear of deficits which seemed to haunt so many Ministers of Finance in the various countries of the world in the thirties. I hope there will not be such an attitude in the countries of the world in the future as there was in the thirties. That is all I am expressing, a hope; and I trust that that hope is shared by the people who manage Canada's monetary and fiscal policy. I thought it was.—A. Of course much depends on other conditions and the psychological reaction within the country itself. There are some countries no doubt, which if they started to pursue that policy would so frighten their own people that they would stop dead in their tracks and would be worse off than before; but I do not want to stress that too much.

Q. Do you not think that in a time like this it should be accepted and stated as a policy so that at some other time it would not frighten people?—A. I am just suggesting that public reaction is a factor.

Q. Before I proceed to another matter—I would like to say that I appreciate the carefully considered answers that you have given this morning to the questions—asked at the last meeting. Now I would like to ask you about our exchange rate with relation to the American dollar. I would like to point out two things in regard to it, and I should appreciate your dealing with it in the same way. First there is the effect on the primary producer of raising the value of the Canadian dollar in terms of the American dollar and as a result in terms of other currencies. The effect of that has been that prices of products of the primary producer, the price which he receives for his products has been reduced because, by and large, his prices are set by the export prices. Now then, that reduces his purchasing power within the country. The suggestion is made that he can buy much more cheaply outside of Canada but the difficulty is that when he tries to do that, he runs up against the customs tariff. That is one thing, namely, the effect upon the primary producer and his receipts.

The second thing is the effect of this fall in purchasing power within the country leading to a falling off of demand for domestic goods and the tendency to encourage the purchase of consumer goods outside of the country. Then there is the relative position of the primary producer relative to other people engaged in our economy.

I suggest that the primary producers prices are set by the export prices. For example, in the case of beef, even though we only export 5 per cent of our beef products the price of 100 per cent of beef products is set by the export price; and of course that price has very definitely been affected by the exchange rate.

When it comes to buying goods within Canada, his, the producer's prices are affected by the rigidities of the economic situation including the wage level as well as other things. Now, just to mention the wage level, there is certainly a tendency to think that, because our money bears the same name as American money—the dollar—the wage level should be the same in the two countries.

Now that, of course, means that you are tending to give the person working in secondary industries the same purchasing power and perhaps more, if you overlook the tariff, than his opposite number in the United States, whereas our productive power per person gainfully employed in Canada appears to be well over 20 per cent lower. In other words, the productive power of the average person gainfully employed in the United States last year was 24·7 per cent

higher than that of the average person gainfully employed in Canada. If in spite of that you give a certain sector of your economy roughly the same purchasing power as they would have in the United States, it must be less for someone else. The person whose interest is so reduced is the person whose prices are set by export prices because he cannot raise them. The result is that although persons in other than primary industry whose relative productive power is at least some 20 to 25 per cent less than the same people in the United States, he is given the same purchasing power. As to the person who is engaged in primary industries he is bound to suffer relatively.

Now, another unfair feature of the situation. I suggest is this: That the person engaged in farming in Canada, that his productive power is probably as high as that of the person similarly engaged in the United States. So if the productive power of our people is lower than that of the United States producer, it is lower not because of the primary producers but because of some other sector of the economy. While it is the primary producer who suffers by virtue of this policy of having our money at a premium as compared to American money, I would suggest there is a further effect on our economy. When the value of our money as compared with American money is at a discount of 10 per cent, it prevents better financing of the primary producers and also affects the relative position of primary producer as compared to other producers. That is most unfair and should be taken into account very much in regard to deciding on the matter. Now, I feel, Mr. Towers, at least so far as I am personally concerned, that that has not been justified as yet in my mind. There are these harmful effects upon our primary producers in Canada and also upon industry generally because it has had a tremendous effect upon stimulating consumer purchasing in the United States. We are told there is some widening of unemployment in Canada. I suggest it is due in part to the increase in the value of our money compared to their money; that the increase influences the purchasing power of the primary producer, and that it is the producer here who keeps our factories going. In so far as anything I have yet heard, there has been nothing by way of justification for this policy. I pointed out the disadvantage it was to our economy and I asked for an explanation of why that trend was not fought against. I asked who it was benefiting when it certainly hurt so many of our people. Now, so far as I am concerned, I may be alone here in my thinking, but I do not think a sufficient statement has been made by you to justify that position. I have no doubt, if it is a proper position, you are able to justify it and I would like to ask you if you care to do so to give us a reasoned study of that situation the same as you gave to the other questions I asked and the sort of answers you gave this morning. That is something, Mr. Towers, I would appreciate very much and I would not take time in asking questions about it this morning.—A. Well, Mr. Tucker, may I answer it this morning because the answer will have to be very brief. As I said the other day when we were on the same subject, I can only listen most attentively and with great interest to the views that you express. But it would not be correct to say that the exchange rate from day to day is determined by government policy; it is determined, in the main, by market forces. Nor would I for one care to be put in a position to have to say what is the right exchange rate to achieve that balance between industry and the primary producers which you would like to have. I do not know of anyone who would be quite sure in naming such a rate. The rate today is established in the market, and I could not express a view as to whether it is the ideal rate or not. I could go this far, by going to extremes; for example, I would be very distressed if the American dollar was at a discount of 20 per cent tomorrow, and I would be distressed if it was at a premium of 20 per cent. But the exact and proper rate to achieve the balance you desire—I do not know what that rate is.

Q. Well, would you not say there is some truth in what I am suggesting that if it could be attained—to keep our money at a discount compared with United States money—that would reflect at least in some degree the greater productive power of the American economy and that would be desirable rather than having a situation where our money is worth more than theirs when our productive power per capita is so much less than theirs?—A. I do not think the question of productive power per capita is something which must be reflected in the exchange rate because in that case a country such as India, which through no fault of her own has a much smaller productive power per capita, should have a rate on the rupee I suppose of one-tenth of a cent instead of 20 cents—that is not what determines exchange rates. It is true that changes in rates have a bearing on the situation temporarily. In other words, if tomorrow we were at a discount of 10 per cent on the U.S. dollar then the real value of wage rates comes down. Whether it remains down, is quite another matter and depends on negotiations and general situations and on the views of the trade unions. It is a temporary reduction in the real purchasing power of wage rates.

Q. Was it not regarded as most important by the British government to their recovery that they should bring their pound into a proper relationship with dollars so they deliberately devalued it?—A. Yes. It was done by the exchange rate, but of course that change in the real purchasing power of wages is not necessarily a permanent one because naturally people desire to have it restored.

Q. That is right; but if the government and the Bank of Canada and everyone else by monetary action permits a thing like this to happen which brings about an adjustment which is not necessarily warranted by the interplay of forces within the nation.—A. Of monetary action you refer to?

Q. Whatever you do to get your money at a certain level with other moneys.—A. There is no direct intervention beyond the cushioning type of activity in the exchange market itself.

Q. If Britain did deliberately devalue her money, why cannot we do it?—A. Because she was at that time, and still is, on the basis of a fixed rate determined by government policy. I say determined by government policy—the circumstances of 1949 were such that they could not determine to raise the amount but they could determine to lower it, and they did.

Q. And if we were to take the same attitude, you say it would not be possible?—A. I did not say it would not be possible. It would be a change in government policy to go back to a fixed rate and that of course could have the effect you spoke about.

Q. Do you say there is nothing you can do in the Bank of Canada to affect the situation?—A. I would not say completely nothing. One could embark upon a major inflationary policy, for example, that would soon change the exchange rate, or would change it within a period of a year or so, I suppose. But I do find myself in very great difficulty in speaking about the policy of today or tomorrow.

Q. It was decided in the days of the thirties that it was a good thing to have our money at a discount compared with U.S. money, was it not?—A. There were strong views expressed in favour of the discount. There were a certain number of views on the other side, too. It was a matter of controversy.

Q. But the producers as a whole preferred the discount theory, whereas the bankers liked the other idea; is that not the way they lined up?—A. No, I do not think so.

Q. You do not think that is true?—A. No.

Q. Well, if you would explain to me who benefits by this situation then I probably would be able to understand who is against it.—A. Well, the trouble

is that those who feel they are losing out on it see it clearly and it tends to be concentrated whereas those who benefit by it are dispersed throughout the whole population—they are the consumers.

Q. I would like to have had the thing studied.—A. Of course, you did refer the other day to the spread in interest rates between the two countries. I think the market must have heard your words because the spread which was then three-quarters per cent is now approximately one-half of one per cent.

The CHAIRMAN: Keep talking, Mr. Tucker!

The WITNESS: I notice the American dollar has been rising too, so your words must have gone as far as New York.

The CHAIRMAN: Are you just about finished, Mr. Tucker?

Mr. TUCKER: There are just two or three things I want to deal with. I am not finished, but do you want to go on to someone else?

The CHAIRMAN: How long will you be?

Mr. TUCKER: I would be about 5 or 10 minutes.

The CHAIRMAN: Perhaps you better proceed.

Mr. PHILPOTT: I want to ask Mr. Towers a question on this point. If for any reason this country ever wanted to reduce the spread between the Canadian and American dollar, of course your bank could very easily take some steps towards that by buying more securities in the American market, is that right?

The WITNESS: Yes, or by buying U.S. dollars as such.

Mr. CAMERON: May I also ask a question in this line?

The CHAIRMAN: In one moment, Mr. Cameron. Mr. Towers, I understand from the last question that if it were the decided policy of the government to disestablish the premium rate of 2 or 3 per cent on American money, there is a method of doing it?

The WITNESS: Canada, by embarking on a really expansionary or inflationary policy can undoubtedly affect the value of her currency. We have seen examples of that all around the world. By going at it hard enough you can depreciate the value of your currency even although you may not be able to appreciate it.

Mr. TUCKER: But Mr. Philpott says there is another way.

Mr. PHILPOTT: Yes, by the simple procedure of buying American dollars or buying securities in the United States, would that not have the effect of doing it?

The WITNESS: If it were confined to that then it might very well not have that effect under certain circumstances. Really, one would have to look to the secondary consequences, that is, heavy purchasing of U.S. dollars whether the dollars were invested in securities or not, and the expansion of the cash reserves of the chartered banks.

Mr. QUELCH: It would depend on the rate of American investment in this country, too. It is one against the other?

The WITNESS: Yes.

By Mr. Cameron:

Q. Is it not true that the number of imports following the first world war followed rather to extremes the course suggested by Mr. Tucker? There was a rat race to depreciate the currency for a while.—A. There was what was called competitive depreciation and the creators of the international fund, with the memory of the first world war in their minds, were concerned about a similar rat race after the last war, and were anxious to prevent it.

By Mr. Tucker:

Q. You dealt with the relative reserves required in Canada and the United States. If you had the same reserve requirements in Canada as appears to be the situation in the United States, how much would it raise the profits of the Bank of Canada?—A. I should think about \$3½ million a year.

Q. And of course that really would constitute in effect a tax of that amount spread over the chartered banks?—A. Or passed on to their customers—it spreads all over the place.

Q. The question was raised when we were considering the housing legislation of whether or not the banks would be willing to enter into long-term loans in view of the effect upon their liquid position. Now, is there any objection to having a policy whereby the Bank of Canada would let it be known that it would, if asked by the banks, exercise the same attitude in regard to making long-term loans to the banks against their loans under the Housing Act, we will say, as was proposed at the time the Central Mortgage and Housing Corporation bank was set up?—A. But the Bank of Canada was not going to make the loans to the Central Mortgage and Housing Corporation.

Q. No, but the Central Mortgage and Housing Corporation was going to be provided with the money by the federal government, and it was going to make the long-term rediscounts. Now, can that not be done in the same way as is being done by the Industrial Development bank by having the Bank of Canada authorized to operate a branch, we will say, that would do the same thing?—A. I think that my answer to that comes back to what I was saying earlier in response to a question asked by Mr. Quelch. If the operations of the Industrial Development bank were on a tremendous scale and were financed in toto by the Bank of Canada, then we come back to the problem of the monetary effects. The operations of the Industrial Development bank have been on a scale where our investment in their activities can readily be offset in other ways—it is very small.

Q. But the deposits of the chartered banks with the Bank of Canada would not be considered as further deposits or as cash reserves and would bear 1½ per cent interest—that would be possible, would it not?—A. All these things are possible, Mr. Tucker, but the question is whether they are desirable or what they achieve. But there I do not think I can say anything more than I did in the answer to Mr. Low's question which went on the record the other day.

Q. I see. Now, there are a couple other questions which I wish to ask, Mr. Chairman. I see that on page 2 of your report—I think it is page 2 of your Bank of Canada report, Mr. Towers—there is a table given there which shows that the increase in inventories in 1953 over 1952 was \$400 million, as I understand the table. Do you regard that as being of any great significance or as a good or bad thing?—A. Of course, one would have to relate it to the circumstances of the time, and also to the absolute level of inventories in relation to sales at the beginning of the year. I do not think I can take any great significance from that figure although one gathers that in a certain number of cases inventories increased a little more than people would desire. Those were cases of individual industries. The overall increase for the country does not seem to me to have been alarming.

Q. In the light of the tremendous increase which I suggest has taken place in instalment buying along with this, is that not something which gives you some concern?—A. A little, I think, but not very much.

Q. In that same table there is the expenditure of agriculture on goods and services. I suppose those are rough figures, but there is a decrease there of 50 per cent?—A. Which figure is that, Mr. Tucker? Is that not agricultural inventories?

Q. The purchase of goods and services. I thought that was given for agriculture there.—A. No.

Q. In the table the one from .3 to .2; that is the inventories of agriculture?—A. Yes.

Q. In the light of the holdings of wheat and other grain, what is the explanation of that?—A. I am not sure that I can give it to you. Excuse me. That is not a decrease on the year—the agricultural inventories increased by \$300 million in 1952, and \$200 million in 1953.

Q. I see, that is an increase?—A. Yes.

Q. Now then, concerning personal consumption, there was an increase of \$700 million in 1953 as compared to 1952. A good part of that increase was from the United States, was it not?—A. Well, we show that imports increased \$500 million on the year, but of course those imports are heavily weighted with machinery and other capital goods for new developments. I cannot give a figure for that part of increased personal consumption expenditure which went on imports.

Q. On page 3, about the middle of the page, you show that imports of consumer goods continued to rise and in some cases supplied an increase in proportion to the total market?—A. Yes.

Q. I take it from that you did consider that imports of consumer goods had risen appreciably?—A. They rose by a fair amount, yes, but I should say by nothing like the full amount of the increase in the personal consumption expenditure on goods and services. In the case of individual items, of course, you could have quite a percentage rise.

Q. You say the largest increase in gross national expenditure was on personal consumption which in fiscal terms increased about 5 per cent. Now then, is that a relatively appropriate increase in consumption as compared with the rise in the productive power of the country during that period?—A. I would say it is a substantial rise, Mr. Tucker, although I cannot relate it to productive capacity exactly.

Q. You say on page 3 there, sort of bearing out what I was suggesting to you in regard to the effect of the exchange rate upon our economy—at least I suggest that this was one of the effects—on page 3 you say there the increase in personal income was chiefly on salaries and wages and was mainly caused by the continued rise in the wage rates.

Now then, take the 4 per cent rise from 1952 to 1953: while food prices went down 9 points from the end of 1951 and now the food item is up one point, in view of the position of primary industries in our economy being the foundation of the purchasing power that keeps our factories going, do you think it is a good thing for the relative position of the primary procedure to go down that fast?—A. I do not know because one has to have a certain starting point and assume that that starting point represents an ideal relationship. One has heard of efforts of that kind in countries not too distant from here, but there seems to be an assumption that nothing else has changed since the ideal starting point was arrived at, and at that point I break down and get completely confused.

Q. Did I get your figure right in regard to the cost of the issue of money and the servicing of it including the relative cost of operating the bank at .2 per cent?—A. Yes, operating that part of the bank which relates to the issue and redemption of currency.

Q. Just another question—you give the agencies of the bank in your annual report—what function do they discharge?—A. In the main their activities relate to the issuance of currency or exchange of currency denominations and very heavily to our job as fiscal agents and managers of public debt. There are a number of subsidiary activities, but those are the main ones.

Q. Those people listed there are not employees of yours?—A. Oh yes.

Q. They are employees?—A. Yes.

Q. I understood originally they were, but here they are described as agents?—A. Instead of calling our offices branches we call them agencies, but it is a rose by another name.

The CHAIRMAN: Mr. Stewart?

By Mr. Stewart (Winnipeg North):

Q. Mr. Chairman, I would like again to draw the lines of battle between the witness and myself. He believes that in part a low interest rate and a far from rigorous monetary policy between 1946 and 1950 was a great benefit to Canada. In turn I believe that that policy helped to pervert and destroy in part the value of the Canadian dollar. In addition, the witness also believes we could not in any decided way protect ourselves from the influence of external prices. This morning Mr. Towers said in answer to Mr. Noseworthy, if I remember correctly that external influences were such that no central bank policy would have kept prices down. I think that is a fair statement?—A. Yes.

Q. Then Mr. Towers went on to say, in answer again to Mr. Noseworthy, there were domestic influences which could give our prices an upward boost. He said in 1949 we had inflationary influences in that year and he further inferred, although he did not say so categorically, that investments had an inflationary effect. Now, on the basis of these last three answers, I ask him if he is changing his ground to admit there were domestic pressures which were quite serious as well as external pressures?—A. I have always said there were domestic pressures and you may recall I suggested that the best we could expect at a given exchange rate was a price level not significantly lower than the United States. Or, to put it more accurately, the increase in the level over pre-war. I thought of that as a minimum. The maximum could have been any figure you would like to name.

Q. But there are domestic pressures entering into the picture whereas the other day you said the pressures were largely external?—A. Oh, I am afraid there was a misunderstanding on that. I believe in my initial statement I was very clear on this: that external pressures were such that there was bound to be a certain minimum rise in our price level. Domestic pressures might be such that the maximum rise in our price level would be any figure you care to name.

Q. It is these domestic pressures I want to deal with specifically. In answer to my question the other day on page 744 of the proceedings concerning G.N.P. and the increase in money supply—the witness said between the middle of 1946 and the end of 1950 the United States wholesale price increase rose by 53 per cent. What the witness has done is to take one day in 1946 and one day in 1950 and tried to prove a case.—A. Mr. Stewart, I assure you I have not done that. I was only dealing with those periods in response to questions. I would much prefer, and I do think it gives a clearer picture, if one takes pre-war and now.

Q. If one were to take pre-war, one could go back to 1932 and prove there was practically no depression when equated with today's high prices. Taking the basis Mr. Towers took—it was the last days of June, 1946 and December, 1950, he said U.S. prices rose by 53 per cent. Using the same days the wholesale price level in Canada rose 62 per cent, or a 17 per cent increase over the American price. That is where the domestic inflationary movement came in.—A. I did not refer to the Canadian.

Q. No, I do. I say it was 62 per cent.—A. I would point out that there was a 10 per cent difference in the exchange rate between the middle of 1946 and the end of 1950.

Q. But surely in the middle of 1946 we increased our dollar to parity.—
A. Yes.

Q. And so that could mean cheaper imports if we were buying from the United States?—A. Excuse me. My reference was a mistaken one. What I should have said was that in September, 1949 we reverted to a discount of 10 per cent, and that would have had some influence on the price level at the end of 1950.

Q. Let us take the period 1946 to 1950 which we have discussed in the past. I would like to make this point: between 1946 and 1950, taking the figures Mr. Towers gave us the other day, the gross national product in terms of constant dollars rose 14 per cent. The money supply in Canada, taking an average for every month in 1950, rose by 29 per cent. I maintain that increase in money was inflationary and I believe that increase should have been curtailed. Now I want to take 1946 to 1950 prices on the basis of the figures given in the supplementary exhibit number 15 on page 803. In 1946, the Canadian wholesale level was 136 and in 1950 it was 207. That was an increase of 52 per cent. In the United States in the same year the wholesale price increase rose from 154 to 202, an increase of 31 per cent. That is a very substantial increase on the part of Canadian prices and I would like to find out if that increase was due to inflationary conditions within Canada, one of those inflationary conditions being the large amount of extra money which was on the market—about \$2 billion extra was in the Canadian financial system.—A. I do not think I can say anything more on the monetary part of it, Mr. Stewart, because I tried to cover the thing as effectively as I could in my opening remarks to the committee on monetary policy. I said I tried to be objective in my approach, but that anyone who is as closely connected as I am could not be absolutely certain they were objective, so that someone else's opinion really should be sought on the thing. I have said all I could. I will just say one thing in regard to the price indexes you have mentioned for 1946 as compared with 1950. In 1946 the table shows that the wholesale price index on an annual average basis was 136 in Canada and 154 in the United States. Our price controls held on longer than theirs did. Theirs went out the window in the last half of 1946, and materially affected their 154 level for that year. We started a price increase post-war later than they did. Therefore, we come to the rather difficult situation that because of variations in price control and also because of variations in the exchange rate, one can pick years where the movements of the two price levels do not seem to coincide and that is my reason for taking the pre-war period—not to try and prove a case, but because I believe that by picking any other years in between one can get very confused.

Q. One can get very confused, Mr. Chairman, but I am using Mr. Tower's own years 1946 to 1950 and my case is that while the G.N.P in terms of constant dollars rose 14 per cent, the money in the hands of Canadians rose by 29 per cent. I am not now dealing with fiscal policy, but with monetary policy, and I say that the monetary policy was inflationary and tended to pervert in part, as I said earlier, the value of the Canadian dollar.—A. Well, Mr. Stewart, God forbid that I should try and tamper with anyone's faith, but I do want to say that to the best of my knowledge and belief I used those years at your request. I would never have picked them myself.

Q. I used the years 1945 to 1950. You gave me the basis 1946 to 1950?—A. I thought I was using them at your request.

Q. I do not think so. We were using certain base years to prove our own points. There is another table, exhibit 14—A. Incidentally, while it may not be proper for a witness to say so, it does seem to me that a reference as serious as one of destroying—no, I haven't got the word—

Q. A policy that helped to pervert the value of the Canadian dollar?—A. Yes. It seems to me that in view of a reference as serious as that,

anyone who holds that view, should make some comment on the major point and that is to try to show that the United States price level could go up as much as it did between 1939 and 1954 and that ours need not have gone up nearly as much. As I said before, if that view is wrong, everything else I said is worthless. If that view is right, the argument relates to a temporary movement in certain years.

Q. I am not disputing the fact that the American price level must influence us, but I refer to page 802 to the index on import prices. Again I take 1946 compared to 1950—a rise from 162 to 234—an increase of 44 per cent. Now I take the wholesale index and the figures rise from 136 to 207 or an increase of 52 per cent. In other words, our general wholesale price rose appreciably over the increase of import goods and I maintain that that in part was due to the monetary policy which we followed. In other words, there were domestic inflationary movements on foot which I maintain could have been averted to the great benefit of the Canadian people.—A. All I can say, Mr. Stewart, is that I have expressed all the views I can express and perhaps some more, and I do not consider the comparison of these years shows as correct a picture of the comparison of 1935 to 1939 with the present time.

The CHAIRMAN: Mr. Stewart, Mr. Towers suggested that the dates were fixed by yourself. On page 743 Mr. Towers starts out by saying:

“Last Thursday Mr. Stewart referred to the increase which occurred in gross national product, measured in constant dollars, from 1945 to 1950, and in the general public holdings of currency and bank deposits from the end of 1945 to the end of 1950.”

He used the dates 1946 to 1950 and he understood that 1945 was excluded, but he was using your dates.

Mr. STEWART (*Winnipeg North*): I was using his figures for the basis of my argument. I was willing to argue this on his basis.

Mr. CAMERON (*Nanaimo*): But on page 743 also Mr. Towers states why he rejects Mr. Stewart's basis. He said the statement as it was framed was misleading and for that reason Mr. Stewart moved on to 1946.

The WITNESS: I would not of my own volition have used either of the periods to give the picture of the war and the post-war effect on the Canadian price level.

The CHAIRMAN: Mr. Fleming, would you inform Mr. Macdonnell that he will be permitted to question the witness first this afternoon. I think we will be able to finish up with Mr. Towers this afternoon.

Mr. FLEMING: You are a born optimist, Mr. Chairman.

The CHAIRMAN: I am the only optimist around here. We will adjourn until 3.30 this afternoon.

AFTERNOON SESSION

The CHAIRMAN: I see a quorum. Mr. Macdonnell?

Mr. MACDONNELL: Mr. Chairman, I think it was a week ago today that I was asking Mr. Towers some questions about the unlimited power of the Bank of Canada—and he explained that that would be in conjunction with the government—to create money and I asked him first of all if there was any check on it at the moment and he generously suggested that the resignation of the governor of the bank would be a check. I am anxious to suggest to him now that I personally think some other kind of check would be better than that, and I asked him first of all if there was anything he could suggest himself, and

secondly if he would be good enough to furnish me with some information regarding the situation elsewhere. This last thing he did very kindly, and I have here information with regard to several other countries.

Mr. FLEMING: Could the statement which Mr. Macdonnell was just referring to go on the record?

Mr. G. F. Towers, Governor of the Bank of Canada, recalled:

The WITNESS: I sent over some information to Mr. Macdonnell at his request.

The CHAIRMAN: It did not come before us.

Mr. MACDONNELL: I am going to use it now.

The CHAIRMAN: Yes.

Mr. MACDONNELL: Would it be possible, so that I will not have to read it, that it could be put on the record? The information is called Statutory Limitations on the Volume of Central Bank Credit in Certain Countries.

The WITNESS: I have a copy here.

The CHAIRMAN: Would Mr. Towers have any objection to its going in the record?

The WITNESS: None whatever.

The CHAIRMAN: It is a statement of fact—a resume of banking law in other countries—it seems straight forward.

1. United States:

Every federal reserve bank must maintain reserves in gold certificates of not less than 25 per cent of its deposit liabilities, and reserves in gold certificates of not less than 25 per cent against its federal reserve notes in actual circulation. (At the end of January 1954 the actual combined ratio was 45·3 per cent).

2. United Kingdom:

In February 1954 the Currency and Bank Notes Act placed an upper limit of £1,575 million on the fiduciary note issue, (i.e. that part of the note issue which is not covered by gold). The treasury at the request of the Bank of England may direct that the fiduciary note issue be raised above this limit. However, the limit cannot be continuously exceeded for more than 2 years without a treasury order. The power to make such an order is exercisable by statutory instrument which is subject to annulment in pursuance of a resolution of either house of parliament.

NOTE: On the occasion of the second reading of the Currency and Bank Notes Bill in the United Kingdom House of Commons in December 1953, the financial secretary to the treasury said in part:

At one time very great importance was attached, both in the House and outside, to the size of the fiduciary issue, and it was fairly widely thought that by limiting it in one way or another one could control inflationary pressures or inflationary developments. Today it is fairly generally realized that the size of the fiduciary issue has very little to do with the general broad questions of inflation and deflation.

3. Australia:

There is apparently no statutory limitation on the volume of central bank credit.

4. New Zealand:

There is no fixed reserve requirement and no other statutory limitation on the volume of central bank credit.

5. *Union of South Africa:*

The central must maintain a gold reserve of 25 per cent of the aggregate amount of its note issue and its other liabilities to the public. The Minister of Finance may from time to time suspend this requirement for a period up to 30 days and may extend such suspensions for further periods not exceeding 15 days each.

6. *Sweden:*

There is a ceiling on the note issuing authority of the central bank. The ceiling has been raised from time to time. Any increases have to be ratified by the Riksdag within twenty days after the commencement of the next ensuing session.

7. *France:*

Central bank reserve requirements were suspended in 1939 and apparently are still in suspense.

8. *Belgium:*

Central bank reserve requirements were suspended in 1945 and apparently are still in suspense.

9. *Netherlands:*

There appears to be no statutory limitation on the volume of central bank credit.

10. *Switzerland:*

A minimum gold reserve of 40 per cent of the note issue is required. Provisions, if any, for suspension are not readily available.

11. *Germany:*

There appears to be no statutory limitation on the volume of central bank credit.

Mr. MACDONNELL: I just want to say one word more concerning my comments of a week ago before I proceed to ask certain questions. Last week I said I was contemplating the situation where we might have an irresponsible government. I made it clear that that was not a controversial matter at the moment, and I asked Mr. Towers what his views would be with regard to that. I want to say myself that to me it is rather a staggering thought that three or four people at the present time have unlimited power to create money. I know that it is extremely difficult for us to believe that inflation could ever be anything but a minor inconvenience here. I think there is a feeling that we have a kind of divine right to be protected against serious inflation, and my suggestion on that point is we have not got a divine right, but we have the right and duty of sensible men to take steps to prevent it. I have here another statement to which I will refer briefly and then I will put it on the record. The statement, Mr. Chairman, is from the city of London publication, "The City Press," which I understand is a respectable although somewhat conservative organ.

The CHAIRMAN: Hardly synonymous terms!

Mr. MACDONNELL: They are often synonymous, Mr. Chairman! I wanted information on the United Kingdom especially. They have a restrictive Act to which I shall refer in a moment. In February, 1954, the Currency and Bank Note Act placed an upper limit of \$1,575 million crowns on the fiduciary note issue, that is, that part of the note issue which is not covered by gold. I understand that is the vastly larger part. This Act provides "the treasury at the request of the Bank of England may direct that the fiduciary note issue be

raised above this limit. However, the limit cannot be continuously exceeded for more than 2 years without a treasury order. The power to make such an order is exercisable by statutory instrument which is subject to annulment in pursuance of a resolution of either house of parliament."

I might call your attention there, Mr. Chairman, to the word "either" because the House of Lords is sometimes considered a conservative body. I want to mention the others, too. "There is a ceiling on the note issuing authority of the central bank in Sweden. The ceiling has been raised from time to time. Any increases have to be ratified by the Riksdag within twenty days after the commencement of the next ensuing session. Central bank reserve requirements were suspended in France in the year 1939 and apparently are still in suspense. There appears to be no statutory limitation on the volume of central bank credit in the Netherlands. A minimum gold reserve of 40 per cent of the note issue is required in Switzerland. Provisions, if any, for suspension are not readily available. In Germany there appears to be no statutory limitation on the volume of central bank credit. There is apparently no statutory limitation on the volume of central bank credit in Australia, and in New Zealand there is no fixed reserve requirement and no other statutory limitation on the volume of central bank credit. In the Union of South Africa the central bank must maintain a gold reserve of 25 per cent of the aggregate amount of its note issue and its other liabilities to the public. The Minister of Finance may from time to time suspend this requirement for a period of up to 30 days and may extend such suspensions for further periods not exceeding 15 days each."

I want to say at the outset that I realize a limit on the note issuing authority in Britain does not go to the root of the matter in the sense that you have other means of payment outside of the note issue, and indeed the note issue is a comparatively minor part of the means of payment. Having said that, I wish to read at some length from the City Press, because it puts forward the view which I hope will be seriously considered, that there should not be wide open power in the hands of a few men without any review or check of any kind to deal with the currency or to debase it if they see fit at their will, and perhaps to do it in such a way that there is no looking back again. Once more I say, Mr. Chairman, I do not think we should consider we have a divine right against inflation. We only have the right of sensible men to look after our own affairs. I will now read from the Friday, February 26, 1954 issue of the City Press which begins as follows:

To hand this week comes the report of the National Bank of Switzerland. The balance sheet shows as at December 31 last gold totalling around 500,000,000 pounds and a position of great financial strength.

It would not be flattering to put beside the position of the Swiss National Bank the figures of our own Bank of England, with its fractional gold holding and its mountain of paper.

That will give you, Mr. Chairman, the flavour of what follows:

There is one satisfactory development in our situation which the great mass of the people have not noticed. It is in the passing of the currency and Bank Notes Act last week.

This is an Act which will have the beneficial effect of putting the brake on further increases in the note issue.

For the past 14 years powers to regulate the note issue have been exercised by the treasury under emergency legislation. The aim of the Act is not to put difficulties in the way of purely seasonal increases in the note issue such as take place at Christmas and holiday periods, but to restore to parliament the right to control long-sustained or permanent increases above a basic level.

Now I will skip part of it and go on.

It is notable that this renewal of restriction on the note issue, which involves a most important principle has not come from parliamentary agitation, but from the treasury itself.

Now that the power of parliament over the note issue has been restored, it is to be hoped that members of parliament will be firm in insisting that the upward movement in the issue will be completely arrested.

Even since the end of the war the rise in the note issue has been progressive, and the pressure of national assistance and other payments would make for further substantial increases.

I draw attention to what follows next because it covers one point on which I wish the governor would particularly comment.

The note issue is, in effect, the small change of the monetary system, but if the real purchasing power of the currency is to be maintained, the upward movement must be stopped, and those who would demand further national expenditure must be told from now onwards that there is no more money in the till.

This development should create greater confidence in the pound and is a very real move in the right direction.

It is not my intention, Mr. Chairman, to ask Mr. Towers to get involved in a technical discussion of this. I think he probably will point out that it is sharply differentiated from our own situation. What I am really asking, and I ask it again, is whether in his view it is unwise to try to devise any system whereby there is a check on the power to create money which now rests wholly in the hands of the bank, and the financial department of the government, and it is that question I want to ask him. I say it is a very unsatisfactory answer to me to have the governor of the bank say he will offer himself up as a sacrifice, and I think a very futile one because if it got to that stage, I would be very much afraid the government would find someone else who was not so courageous to take his place.

The CHAIRMAN: I do not wish to interrupt your question, Mr. Macdonnell. Do I understand you correctly. You are asking if he suggests, that something can be done with respect to taking the power from the government, and is this possible?

Mr. MACDONNELL: Perhaps I omitted one thing which I included in my question the other day, and I am glad you reminded me of this. My question was, could there not be a hurdle to go over at a certain point, the hurdle being parliamentary action? In other words, might there not be a point at which the power to create money could be continued no further without reference to parliament? Now, it is that question that I really want to ask, whether Mr. Towers is satisfied with the situation as it is? I suggest to him the fact that he felt prompted to suggest that he might be obliged to hand in his resignation in an extreme case indicates that a time might come when there should be a check. I would like to know if he will agree with me that there should be a check? I think that is my question.

The WITNESS: Mr. Macdonnell, before starting to answer your question, perhaps I should put on the record my remarks about the governor's resignation, while perfectly true in the context, were only offered as a minor illustration.

Mr. MACDONNELL: It was the only illustration offered however.

The WITNESS: No, because the responsibility has been placed by parliament on the directors and management of the central bank and that is more than

one man. Secondly, the responsibility rests on the government of the day with such checks and inquiries as might arise from the interest of parliament in the matter.

Mr. MACDONNELL: But there is no chance for parliament to provide a check should this situation arise.

The CHAIRMAN: Mr. Macdonnell, you are differentiating between parliament and government, are you not? I think you are.

The WITNESS: Yes, I know. I think Mr. Macdonnell is saying that so long as the government commands a majority in parliament it decides these matters and that, of course, is perfectly true. I do not think I should express an opinion as to whether parliament should try to put certain checks on the government of the day.

Mr. MACDONNELL: That is not my question. My question is whether you agree there should be a time when the red light goes on and parliament, if it wishes, has a chance to take action. I come back to what I said at the outset. You referred to the directors of the bank. I said a few men. If it is not three or four men,—although I really think it is,—I will extend it, if you like, and make it 15 or 20 men. But there it is. It is the wide open power I am questioning.

The WITNESS: I do not feel I should express an opinion on that, Mr. Macdonnell, because it is so much a question of the form in which our parliament operates, the form in which it puts restrictions on the administration of the day and forces them to come back to parliament before certain things can be done. I would only say this: that if a limit were placed,—and incidentally as you yourself have observed, it only goes a small portion of the way to place a limit on the fiduciary issue,—if a limit were to be placed to try to guard against something unfortunate happening, and if an irresponsible government were on the scene—

The CHAIRMAN: May I interrupt for a moment? I do not follow the meaning of the word “irresponsible” government. How do you reconcile “government” and “irresponsible”? If the government is there by the will of the people, does that not make them responsible?

The WITNESS: I used a bad word, Mr. Chairman.

The CHAIRMAN: No, Mr. Macdonnell used it.

Mr. MACDONNELL: I am responsible for the choice of that word.

The WITNESS: Whatever the virtue of the check might be, if this unknown government were there, I do think that some thought would have to be given to the effect of placing a limit in the intervening period before the crisis arises. I assume that any limit should contain some leeway so that it would not be necessary to go back to parliament too frequently and that it would not be a strait-jacket. I would be afraid that the limit set, and this is purely a personal opinion, would come to be regarded as the desirable limit at which one should be and that in normal times it would tend to be an encouragement to a policy of expansion rather than a deterrent. However, that is purely a personal opinion.

By Mr. Macdonnell:

Q. We are getting on to the nature of the deterrent, and I have not suggested a specific deterrent nor do I think at the moment I am competent to do so. I am of the impression, however, that I would much rather be in company with the countries that have checks than with those that have not. Let me change my question. Do you think it is personally wise for the present situation with no limitation of any kind to continue?—A. So long as there

is a degree of integrity and responsibility on the part of the management of the central bank, and much more important, so long as—and here I am going around in a circle—so long as government commands a majority in parliament, I would think so.

Q. Well, there again it seems to me—A. But as I say, I have gone around in a circle there.

Q. Yes, I think you have. You have really said so long as there are men who will never yield to political proddings, there is no danger. I have postulated a group of men who might yield. It does not answer my question to say that as long as we can be sure we have good men and men of integrity, men who will never be led away by any other considerations than the desire to do what is the best thing, then you think that is all right.

The CHAIRMAN: Is he not saying, in effect, that parliament is supreme?

Mr. MACDONNELL: I do not think he is saying that at all.

The CHAIRMAN: That is what I gather from his remarks. In effect what he is saying to you parliament decides what serves as a check.

Mr. QUELCH: If you have bad men in parliament, would they not immediately abolish the checks?

Mr. MACDONNELL: My whole approach is that there should be a chance to stop, look and listen. After all, as it stands now, you could wake up some fine morning and you could find the whole thing done irrevocably without any check or reference.

The CHAIRMAN: All you are suggesting is the need for notice, if the government of the day decided to do it and had a majority in the House, they could do it.

Mr. MACDONNELL: No.

The CHAIRMAN: If the government of the day decided to take a certain course of action, brought the matter before parliament, and it passed parliament, though the opposition voted nay, it would still be done, would it not?

Mr. MACDONNELL: We are talking about a state of affairs where it would be done presumably without ever coming to parliament because there is executive action and the power to do it by executive action.

The CHAIRMAN: What you want is notice?

Mr. MACDONNELL: No, legislation. I gave an illustration the other day which shows what happens where you have legislation and where the public get notice—and you may answer me by saying that the public is not much interested in this, and they may not be at the moment, but they may be under certain circumstances. I come back to my question to Mr. Towers.

The WITNESS: I do not think I can answer it.

Mr. CAMERON (*Nanaimo*): Is it really correct to say there is no limitation to the note issue now? Is it not really a reflection of other actions on the economy?

The WITNESS: Yes, Mr. Cameron. Mr. Macdonnell said himself that controlling the note issue is a small part of the whole thing. The reason it is still in effect in such countries as the U.K. is, I believe, a hang-over from the days when the note issue was the whole show:

On the occasion of the second reading of the Currency and Bank Notes Bill in the United Kingdom House of Commons in December 1953, the financial secretary to the treasury said in part:

At one time very great importance was attached, both in the House and outside, to the size of the fiduciary issue, and it was fairly widely thought that by limiting it in one way or another one could control

inflationary pressures or inflationary developments. Today it is fairly generally realized that the size of the fiduciary issue has very little to do with the general broad questions of inflation and deflation.

If a country decided to impose certain limitations and was not simply doing so in response to tradition, I suppose it would go much further and impose an overall limit on the size of the note and deposit liabilities of the central bank.

By Mr. Macdonnell:

Q. I was very careful not to tie myself into the note issue, because the question is broader, as you just stated, but I come back again—and I do not wish to be tiresome about it—to the question which after all was implied in your answer of the other day and that is the generous suggestion you made of possible resignation. I can imagine, and I think everyone in this room can imagine, a situation where the governor of the bank and the Minister of Finance might come to very different opinions?—A. Yes, and the governor of the bank might be completely wrong.

Q. But the governor of the bank is there with certain duties to discharge and we would hope he is quite clear of politics.—A. Let us say then that he is sincerely wrong but misguided.

Q. We would be just babes in the woods if we assume politicians are clear of politics, that is of the things which are necessary to get elected. I can quite imagine a situation where it might be very, very tempting to politicians to inflate the currency and where the governor of the bank might not want to have any part of it, and I am suggesting to you in such a case it would be a very useful thing if the politicians knew that the governor of the bank, if he had his back to the wall could take such steps as would involve legislation. I think that would be a most salutary thing. As I said before, it does not take a month now to summon parliament, and this is not the kind of thing that is going to come like an atomic bomb—it will not drop on us over night, it will be a gathering storm, if it is a storm, and there will be plenty of time to summon parliament. As I said, I do not want to ask you an unfair question, but I am sorry you are not prepared to answer my question which is very simple. Are you absolutely satisfied with the present situation which gives this unlimited power to a small group of men?—A. In a way, I think that is only part of the question. Would I be absolutely satisfied without this safeguard against unfortunate developments if the country was ever sufficiently unfortunate to have the kind of government you mentioned. I do not think that the Minister of Finance must deal with any form of check which is related to assumptions of that kind.

Q. Well, I do not like to press you or try to put you in an unfair position, but I would like an answer to my question.

Mr. Low: I imagine it would be interesting for the committee to hear what Mr. Macdonnell's submissions are.

Mr. MACDONNELL: I am frank to say I do not feel competent to work out a check. I agree with the governor of the bank it must be flexible and I agree with him that there is a danger that the limit which is put on might come to be regarded not as maximum but as minimum, but I am not going to regard that as a very serious danger—I would take that chance.

The CHAIRMAN: Mr. Towers has left that question for the minister to deal with.

Mr. TUCKER: Is it not true if the governor of the bank wanted to do it he could not do it over night. The finance department would know of it almost

at once, and they could take proper action and if the government wanted to do it they could not do it without the concurrence of the governor of the bank—there is a check.

The CHAIRMAN: Mr. Macdonnell is pressing the point that has been previously suggested on the floor of the House. Instead of government action under certain circumstances by cabinet, he wants it dealt with on the floor of the House. That is a point of view.

Mr. TUCKER: Just to complete the thing, if parliament is not satisfied with the action of the executive it can throw it out and there is a check.

Mr. MACDONNELL: There are people who want to inflate the currency and the other day when the Governor of the Bank was perhaps a little more communicative than he is today, he suggested that as means of checking that would be quite an important item, that is to offer his own resignation. But I told him that that was not the kind of check that I wanted. Perhaps I have gone as far as I can. I am disappointed. But I want to ask one or two questions about the premium on our exchange. In the period from October 1950 to September 1953 what use was made of the exchange fund to influence the exchange rate.—A. October 19 what?

Q. 1950 to September 1953, since it went free.—A. Yes. So far as operations of the exchange fund are concerned it is laid down by Parliament in the Act that members of the staff of the Bank of Canada cannot give any information on the exchange fund account without exposing themselves to the penalty of a fine and I think a jail sentence. I have not had any hesitation earlier in these meetings in saying that the exchange fund account has operated as a cushioning influence to try to minimize unduly large fluctuations in any one month. It has never taken a view that there should be exactly such and such a rate. I have been able to say that because it has been stated by the minister on various occasions.

But if the question arose as to the exact volume of those operations at any time the minister would have to deal with it or authorize someone else to do so.

The CHAIRMAN: Mr. Macdonnell would not press it.

Mr. MACDONNELL: No.

By Mr. Macdonnell:

Q. In 1950 before the dollar went free you were playing a certain part in reference to the exchange rate?—A. In those times there was a fixed rate, as you recall, and the exchange fund account bought all dollars offered to it at a fixed rate and sold at a fixed rate.

Q. Yes. But can you describe the exact situation immediately before the dollar went free? Can you tell us what it was that precipitated that action?—A. That was the time of the very large inward movement of capital from the United States and the exchange fund account offered to it, to the tune of some \$600 million, I think, within a few months.

Q. At that time there was a substantial premium offered above that?—A. The United States dollar was at a premium of 10 per cent.

Q. Yes, but in the free market or black market, or whatever you want to call it, our dollar was not at 90 cents then, was it?—A. No, it could not run above that because we were willing always to buy U.S. dollars at the premium of 10 per cent. In the free market it got just about to the official rate.

Q. Assuming that you decided now to bring the Canadian dollar back to parity, first of all I suppose that could be done if you decided it was worth while doing?—A. If the government decided that the cost was not important they would buy gold and United States dollars in unlimited quantities at par and they could probably do that. However, as I say, it would necessitate reversion to a policy of the government fixing a rate and trying to stick to it.

Q. In your opinion what would be the effect of such a drastic measure upon the economy?—A. Such a drastic measure as an exchange rate of parity or of a change of policy?

Q. Both, I suppose; but first of all, the parity?—A. Well, I do not think one can express strong views on minor changes. The rate at present is 98, while parity is 100. It would have certain results for various differing interests in the country with some gaining and some losing. I do not think I can give a clearer answer than that.

The CHAIRMAN: There was considerable discussion on that point this morning, Mr. Macdonnell. It is in the record. Mr. Tucker was asking questions. The net result was that the consumer appears to have benefitted some. Now, Mr. Wood.

Mr. WOOD: I would like to ask Mr. Towers what effect, if any, the Bank of Canada would have on our fiscal policy in the event there should be a repetition of the conditions that existed in 1932, 1933 and 1934, with regard to loans to those engaged in agriculture? In those years if farmers who owned their farms and had grain and livestock and other products on the farms, made an application, even for a small loan, the application would not be considered locally by the bank manager, but would be referred to the head office. They could not secure a loan, I believe.

The CHAIRMAN: What is the last part of your question?

Mr. WOOD: I was asking Mr. Towers what effect if any would the Bank of Canada have on our fiscal policy if there was a repetition of conditions which existed in 1932, 33, and 34 with regard to loans from the banks to those engaged in agriculture?

Q. I believe that, because I knew of many farmers who were well located and who owned their own farms and buildings and equipment who went to the banks to get a small loan or to make an application for a small loan and before the loan could be made they had to refer the statement to their head office.—A. If all other conditions were the same as they were in 1932, 33 and 34 then I think that the Bank of Canada would make a little difference in the situation but not much. The loans may have been refused, but in general, if they were refused it, it was by reason of the fact that the banks considered the risk to be too great. There may also have been some element of trying to back away from loans because the cash reserve situation of the banks was extremely tight for most of that time. That part of the situation the Bank of Canada could cure. The lack of credit worthiness we could not if all other factors in the situation were the same as they were then; so that one would naturally hope that these other factors would not operate.

Q. I was just concerned to know if, in such a situation the banks would consider that agriculture was not a part of our economy and should be written off because that appeared to have been the situation in those days even though the farmers had considerable grain and cattle, although they were not able to obtain a market for them at that time. In respect to any value for their hogs or grain, there was no market for the stuff. I presume that the loans were just written off as a risk.

Mr. HUNTER: I can assure Mr. Wood that situation was not restricted to farmers.

The CHAIRMAN: We could all give evidence on that. I think we could produce testimony to the effect that we in the cities had our troubles too about borrowing money in those days. Are you finished, Mr. Wood?

Mr. WOOD: That is all. Thank you.

The CHAIRMAN: Now, Mr. Low.

By Mr. Low:

Q. I have a couple of questions for clarification purposes. On page 837 of the evidence for Thursday, March 25 the very last sentence in the last paragraph on the page reads:

In other words, the government obtains low-cost money in return for providing through the central bank the very liquid types of assets which the general public and the banks require, and on which they receive no return.

Just to get exactly the reference of "they", I take it that means the chartered banks.—A. The chartered banks in respect to their cash reserves held on deposit, and the public in respect to our notes that they hold.

Q. Fine. And on page 838, next to the last paragraph, there is a reference which is quite obscure and which might change the meaning of the whole sentence. Starting with this sentence:

It might be argued, as I believe it has been, that the central bank could be authorized to pay an amount of interest on the additional cash reserves which would cover the bank's costs.

That appears to refer to the Bank of Canada.—A. No. It is intended to be the banks'.

Q. That is what I thought, because it might change the whole meaning of the sentence. I thought that was the case but I did not want to presume it without getting your confirmation. Now, I have one other question, Mr. Towers. On page 837 there is a reference in the last paragraph, in the very first sentence, to the low net cost to the bank of debt in the hands of the central bank. I wonder if it would be possible to give the committee some idea by means of a set of figures or otherwise, just what that net cost might be.—A. The net cost which I am describing is the gross earnings of the Bank of Canada derived from interest on government securities which it holds minus operating expenses of the bank which of course have been shown in tables filed with the committee.

Mr. Low: I thank you very much.

The CHAIRMAN: Now, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. Mr. Towers, I should like to go back to your evidence on Friday at page 831. You may recall that in answer to a question asked by Mr. Applewhaite regarding the importance of defence expenditures in our economy, you had this to say:

. . . And I believe, irrespective of Korea or heavy defence expenditures, that the North American economy and the other economies are sufficiently dynamic so that they could maintain a high level of business without that, but the proof of the pudding is in the eating.

The reason I ask about that is because your statement seems to be in such marked contrast to what must have been the thinking in 1944 at the time of the set-up of the Industrial Development Bank. In fact, in the light of your own statement with regard to the point of view taken at that time by monetary and governmental authorities with regard to the post-war period, there appears to have been quite a strong feeling at that time that we were going into a period of recession. And when I asked you another question after Mr. Applewhaite, I cannot see how that could be the basis of your optimism. You said "a more rapid increase in population and very considerable changes in technology."

The CHAIRMAN: Take the other two reasons. They were hurriedly put in by Mr. Fleming and Mr. Hellyer and with which the witness agreed.

Mr. CAMERON (*Nanaimo*): I am going to deal with that one later.

The CHAIRMAN: Yes.

By Mr. Cameron (Nanaimo):

Q. Now, while I think it is a debatable point that the increase in a population can be regarded as a stimulus to our economy, I think we have to remember that every new consumer also implies a new producer and that in fact they may well be increasing our difficulties of distribution. Nevertheless, if we do accept that as regarding North America, what would be your attitude with regard to the economy of other countries with whom we have to deal, such as Great Britain, and the Scandinavian countries? Indeed we might go to Asia, with India, Indonesia, Japan and all of those countries where a heavy population is considered to be one of their major liabilities. In fact one of the countries, India, is taking specific steps to curb an increase in population. Does this imply that in such a national economy it is only a continual and rapid rise in population that will maintain a high level of business?—A. No, it most certainly does not. But the North American economy is distinguished by quite a high level of savings, both personal and corporate. So long as people wish to put aside in savings quite a significant portion of their income—and I would call 7 or 8 per cent significant—one must have capital development and capital investment programs which are fully adequate to absorb the savings which the people desire to make.

Q. On that point, was the rate of savings higher in the thirties than it is now, proportionately?—A. I would not say that. No.

Q. Just prior to the crash?

The CHAIRMAN: Nobody was saving. In those days we were spending.

By Mr. Cameron (Nanaimo):

Q. Some American economists attribute that high level of savings as one of the causes of the depression.—A. That is what I am getting at. If people attempt to save more than there is a demand for in the form of capital investment, they will not succeed in their effort because their incomes will come down, and there will be a depressed situation such as there was for that and many other reasons in the thirties, their attempts at saving will fail, so to speak. The actual level of savings in the thirties, to the best of my recollection, was very low.

When you come to another country with, let us say, a vast population and a very low standard of living, their problem is that they do not know how to achieve a degree of saving which will enable them to go ahead with capital development. Their savings are completely inadequate. So the type of situation one wants to see will vary from country to country, and there are few countries—although there are some—but there are few countries in the world where the savings available to facilitate their going ahead with capital development are as great as they are in the United States and Canada.

The CHAIRMAN: Now, Mr. Fleming.

By Mr. Fleming:

Q. I would like to ask Mr. Towers, in view of Mr. Cameron's last question, if he would accept Mr. Cameron's assumption that the addition of every consumer in this country necessarily connotes the addition of a producer? There may be 150,000 babies born in Canada this year and they are consumers, but we would not call them producers, would we?

The CHAIRMAN: That is quite right.

Mr. HUNTER: They are potential producers.

Mr. CAMERON (Nanaimo): Each of these producers must produce more than he and his family will consume or he will never get a job.

The CHAIRMAN: Please get back to your line of questioning, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. It seems to me that Mr. Towers has gone around in a circle when he tells us that a high level of savings provides a safeguard. But on the other hand he has pointed out, and quite rightly, that there must be an employment of those savings in a profitable investment.—A. That is right. The ideal situation is one in which the level of savings is sufficient to cover the desired level of investment but no greater and no less. These things are not static because the ratio of savings will vary from year to year and from time to time, as well as the level of capital investment.

Q. What has caused you to take a new and different view of the future? This apparently is not the view in other respects taken in 1944 when quite elaborate steps were taken to cope with a possible depression.

The CHAIRMAN: Just ask him for his own views, not the views of other people. Limit him to his own views.

The WITNESS: First of all it did look as though the difficulties of the transition period might be quite considerable. With such a tremendous number of people from the armed forces and war industries turning to other things. Plans were made in the international field and to a modest extent domestically to try to make sure that that transition took place as normally and as quickly and as effectively as possible. The fact that it did so is not in itself unsatisfactory. Apart from the international aspects of the scene which were pretty ominous, I do not think that you can say that the actions taken denoted major concern. Naturally one would want to do everything possible to facilitate these things and the Industrial Development Bank which you mentioned was a facility. For a number of individuals I think it was very important, but it was not a matter of major economic policy.

Q. I notice that you put in the saving clause in answer to Mr. Applewhaite that "the proof of the pudding is in the eating". I take it that you do not altogether rule out the possibility of a recession?—A. That phrase is a typical bankers phrase intended to say "We do not know everything."

Q. You might put it this way: I gather from your evidence before this committee that you did not agree with this position: That in the face of a recession there is little that the banking system in this case—and that includes the Bank of Canada and the chartered banks as part of the one banking system—there is very little that the banking system itself can initiate in the way of measures to offset it.—A. I must qualify that by saying that a bad banking system could cause a given problem to become much worse.

Q. I am speaking of our banking system.—A. Well, a given banking system could cause a problem to become much worse than it would otherwise have been. Therefore I take it that the monetary situation is a very important one in any such circumstances. But it cannot guarantee that there is no problem at all.

Q. And you would agree that in the face of a recession there would have to be some other action than anything we might do with the chartered banks? —A. I do not know what the character of the recession would be and whether it would be one in which we could take measures within the country that would cure the recession or whether international action would be required.

Q. Would you say it would be possible to take action within the country? Do you think it is likely?—A. I would say that in the monetary field and possibly in certain other fields of government activity, which I just could not

go into, that things could be done which would ameliorate the situation. If our troubles were wholly internal they could cure it, but if our troubles, as so often happens, relate to international developments then the situation calls for international co-operation.

Q. When you speak of government action would you have in mind government investments?—A. I think, as I indicated a moment ago, the possible forms of government action have frequently been discussed in parliament and elsewhere, both here and in the United States and in other countries and that I had better not go into that particular field.

Q. Any "pump priming" that might be required might very well have to take form of public expenditure on capital goods to be exported, if one can use that term, to undeveloped areas of the world, and may have a very beneficial effect on our economy if we were going into a recession?

The CHAIRMAN: The government does not quarrel with that, it is only a question of degree. The principle is acknowledged by the government, is it not?

Mr. CAMERON (*Nanaimo*): It is not acknowledged very effectively in action.

The CHAIRMAN: In principle it is. I should like to hear what Mr. Towers has to say, if he has a view on that matter.

The WITNESS: Not a very useful view, I am afraid. The government would probably go as far as the taxpayers wanted them to go.

Mr. MACDONNELL: Could I ask one question pertaining to that? Mr. Towers spoke a moment ago about what I think is called the "white paper" of 1940 or 1945 which contemplated the possibility of having to give the economy a boost.

The WITNESS: I did not refer to it by name, but I suppose in the back of my mind I remembered it as well as the parliamentary discussions.

Mr. MACDONNELL: I thought you had it particularly in mind, and I wondered if you regarded it as sound or purely as "pump priming"?

The WITNESS: It is a long time since I read it.

Mr. TUCKER: Perhaps it was the "green paper" you were referring to!

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. I suppose it is fair to say that all the questions that you have been asked group themselves around two subjects: First and particularly, the effect of monetary action on the general trend of the economy, and second the relationship of the powers of the Bank of Canada to the banking system. I asked you a number of question on the 18th of March on the second subject, and I do not propose to cover that ground again although some of my questions do arise out of the answers that you gave me at that time, particularly on pages 717 and 718. Now, you indicated at that time a reluctance to comment upon anything that was being done within a recent period by the Bank of Canada with a view to influencing the economy. May I ask you what steps have been taken by the Bank of Canada to influence the volume of loans through the chartered banks?—A. If the volume of loans is being held back by difficulties of the chartered banks in either securing sufficient cash reserves or in the cost and difficulty of selling bonds in order to make room for loans, then loans are being held down below where they otherwise would be by reason of monetary tightness. In such circumstances, if the public interest seems to call for it, the Bank of Canada by increasing the chartered banks cash reserves can make it easier and more practical for them to increase their loans.

Q. Is that all that the Bank of Canada can do in that regard? That is to say, to make it easier for people to borrow from the banks? Or, to put it

broadly, to increase the volume of bank reserves?—A. Yes, it is, but what is required in order for bank loans to increase are two things, each of which is very important: one, the financial ability of the banks to make them, and two, the desire and credit worthiness of customers to secure the loans.

Q. I take it you have given me a complete statement of what the Bank of Canada can do to expand Bank of Canada bank loans?—A. Yes.

Q. What steps are open for the Bank of Canada to contract the volume of bank loans?—A. We can operate on cash reserves, and by making them somewhat smaller than the banks would desire in relation to the loans they want to make and by having this contribute to a situation in which it is more expensive for the banks to sell other forms of bonds like government securities, we can produce conditions in which banks are reluctant to loan. Although they will nevertheless struggle to the end to respond to the requirements of their customers, the banks may and no doubt will try to suggest to customers that they get along with something less than they originally demanded.

Q. Going to something more specific, what steps would you take with a view to bringing about certain of those results? I am looking for as comprehensive a statement as you can give me as to what lies within the power of the Bank of Canada to do?—A. Speaking of curtailment?

Q. Yes, speaking of curtailment.—A. This is an extreme case but we could refuse to buy any government securities in which case it would be impossible for the banks to increase their cash reserves.

Q. That might not affect them all equally, but might effect more heavily those who are carrying a relatively higher volume of government securities in their portfolios.—A. It would affect them all so far as expansion is concerned. They might start from different levels of loans, that is true.

Q. Let us go to the subject of interest rates. I am not going to ask you what steps you are taking at the present time to influence the course of interest rates, but what steps are open to the Bank of Canada to take to influence interest rates (a) upward, or (b) downward?—A. The answer is the same as in respect to loans, really. To influence a more easy situation in the money market, we would buy government securities and increase the chartered banks cash reserves on the one side, and on the other side we would sell them.

Q. Anything further?—A. No.

Q. You indicated also on that previous occasion when I was asking you questions that you and your officials do meet periodically with representatives of the chartered banks. You indicated, I think, that you did hold quarterly meetings?—A. At one time we did. For example, during 1951 when it was desirable to meet more frequently. That was the time when the arrangement with regard to the restriction of credit, or rather that there would be more caution concerning the expansion of credit, was put into effect.

Q. Are these meetings being continued on an ad hoc basis or by regular arrangement?—A. We formed the habit for a number of years of getting together twice a year.

Q. Is that in effect now?—A. That is the minimum, and there would be more frequent meetings if necessary, but those would be on an ad hoc basis. Mind you, we are speaking now of a situation where we meet with all the general managers. There are, of course, opportunities for individual conversations, discussions and meetings when I, or someone else, may happen to be in Montreal or Toronto, or representatives of the banks may be in Ottawa.

Q. Oh, I can appreciate that, but I take it when any particular question arises entering into the scope within which the Bank of Canada can and wishes

to influence the expansion or contraction of credit through the chartered banks, it would be a matter of holding a formal meeting with representatives of all the banks?—A. Yes, it would.

Q. I would like to ask you when the last such meeting was held.—A. I will answer that not quite directly by saying the last meeting when a proposal of that kind was made was approximately at the beginning of February, 1951. Then subsequently on three or four occasions there were meetings to see how things were working out, but February, 1951 was the last meeting called to discuss a proposal of that kind.

Q. May I ask you then when you held your last general meeting with representatives of the banks?—A. In November.

Q. Last November?—A. Yes.

Q. Is it fair to ask you what appeared on the agenda of the more recent meetings—what questions?—A. Well, there is never an agenda, but the more recent meetings and what I would call the normal meetings are ones in which there are not necessarily any specific subjects of new concern to be discussed, but rather an opportunity to hear something of the general managers' view with regard to the general business situation as they see it, and so on and so forth.

Q. Would it be fair to say that these meetings which have been held since the 1951 meeting which you described were called for the purpose of exchanging ideas about the outlook?—A. For a couple years past, yes. There would have been one or two meetings in 1951 subsequent to the February, 1951 meeting when the subject was very largely the progress of the arrangement which we had made.

Q. You have not had occasion to call such a conference to deal with specific programs in influencing the trend of the economy since 1951?—A. That is right.

Q. Now, under the present Act in section 18, which I am sure you could probably repeat backwards, you have there wide powers with respect to the purchase and sale of securities including those of Canada or any province. I wish to refer particularly to clauses (e) and (f):

(e) buy and sell short-term securities issued by the United Kingdom, any British dominion, the United States of America, or France, having a maturity not exceeding 6 months from the date of acquisition by the bank;

(f) buy and sell securities issued by the United Kingdom or the United States of America having a maturity exceeding six months from the date of acquisition by the banks, but the bank shall at no time hold such securities of a par value in excess of one-half of the amount of the paid-up capital of the bank;

Is there any reason why one should not ask Mr. Towers as to the extent of his purchases and sales of securities of the kind described in clauses (e) and (f)?—A. None whatsoever, Mr. Fleming. The bank has at times and quite frequently held treasury bills of the United States as a form of employment for working balances which are maintained outside of Canada in the ownership of the bank. As agent for the exchange fund account the situation may be a little different. Of course the exchange fund account can only invest in securities of the United States of America, but speaking for the bank as principal, we have held a few treasury bills of the United Kingdom or a few short-term securities or treasury bills of the United States. That represents the sum total of the story from the time we commenced operations to the present day.

Q. You never purchased or sold securities of the countries of the British dominions or France?—A. No.

Q. What about the provinces of Canada?—A. We held some treasury bills of the province of Saskatchewan a number of years ago at a time when there were certain difficulties experienced by Saskatchewan in financing and when there was in prospect an arrangement between the government of Canada and certain provinces of which Saskatchewan would have been one. I cannot remember at this date—it is now 16 or 17 years ago—just what that arrangement was to have been; but as I recall it, it had the distinction of having been defeated in another place. In the end, the treasury bills were paid off and that is the limit of our experience.

Q. With any province?—A. Yes.

Q. In the case of the purchases you made of the United Kingdom and the United States, they were simply a matter of employment of your working funds in those countries?—A. Yes, the employment of a modest amount of the working funds.

Q. I now have a question about the purchase and sale of Canadian government bonds. In previous testimony you indicated that in some cases where action of this kind was decided upon with a view to using that form of monetary action to influence the economy, sometimes the purchases were made by the Bank of Canada itself, or by sales through its brokers, and sometimes the action was taken by the Canadian government itself. Do I correctly apprehend the evidence?—A. Yes, there have been various periods since the war when the government employed surplus funds in buying its securities in the market and in that case we acted as agent in making the purchases.

Q. What were the circumstances which led to the government taking that action rather than leaving it to the Bank of Canada to do so?—A. If the Bank of Canada does so, of course it has an effect on the chartered banks' cash reserves. The periods during which the government operated were in some cases periods when the Bank of Canada had no desire to increase the chartered banks' reserves. The government had surplus funds and decided to employ them in that manner. Sometimes they bought bonds, and there were one or two occasions when they in effect retired certain issues and held them in their securities investment account until maturity, not having the power to cancel.

Q. What was the last occasion when the Canadian government purchased or sold securities of Canada?—A. Incidentally, I suppose I should say that the Minister of Finance is the one to answer that because we only act as agents, but I know from conversation with him that he would not have any objection to my replying to that question if I have the information here. I have not got it in a complete form but there were some purchases in 1953 and some sales in 1954.

Q. I take it that you do not wish to say anything more specifically?—A. I think that is about as far as I can go.

Q. May we take it that when the government of Canada has entered into such a transaction in each case they have done it through the Bank of Canada?—A. Yes.

Q. One final question: In your original statement which has been reproduced at page 695 of the evidence, near the bottom of the page you say:

What can be said is that, relative to its pre-war position, the price level is lower today in Canada than in any other country which was allied with us in World War II. This does not of course alter the fact the rise in prices during this time has been very substantial.

The CHAIRMAN: What page is that, Mr. Fleming?

Mr. FLEMING: Page 695, near the bottom of the page.

The WITNESS: I am sorry but my copy is missing.

Mr. FLEMING: Perhaps you have your original statement with you.

Q. It is about the sixth line from the bottom of the page.—A. Yes.

Q. I was wondering if you would care to make a comment.

The WITNESS: Yes, I have it, but I am not quite sure what comment you want me to make.

By Mr. Fleming:

Q. My question invited a comparison between the price level here and the price level in the United Kingdom specifically.—A. The only comment I can make on that would be the one which is implicit in the tables which have been put on the record, for example, at page 804, in which the wholesale price index of the United Kingdom is 326 in January 1954 as compared with 215 for the Canadian index in the same month, both as a percentage of 1938.

Q. You are proceeding simply on the basis of the wholesale price index?—A. I do not know any other way apart from consumer prices which are also referred to here. The consumer price index in the United Kingdom is shown as 227 as at January last, and 182 for Canada. But the consumer price index can be very much distorted by subsidies, as you know.

Q. You are not prepared to make any comment on the way in which attempts at control have influenced the course of price levels in the United Kingdom?—A. No, I really cannot. All I can say is that the influence of both controls and consumer subsidies is very much less now than it was two or three years ago, but that is a very vague answer.

The CHAIRMAN: Now, Mr. Johnston.

By Mr. Johnston (Bow River):

Q. My questions are not very technical or catchy. I have listened here for several days and I have not got an answer to them. They are very short questions which Mr. Towers could answer so that we could have them all on one page of the proceedings. That would help me to find them. Speaking as Governor of the Bank of Canada, if you saw a period of inflation coming on, just what would you do?—A. I wish with all my heart that there were answers as coherent and brief as the questions. I am sorry to say that there are not because one would have to inquire first: Is the inflation which one apprehends coming from other countries or is it a domestic matter?

Q. You certainly would have to take a certain action, whatever it was.—A. If the impact is from the outside, particularly from the United States, then the degree of effectiveness of action which we can take is fairly limited because it may rest very heavily on the exchange rate.

If however the apprehended inflation arose from purely domestic circumstances then one would again have to inquire what are the causes? Are the causes too heavy expansion of bank credit, a too easy money market, too much expansion in our monetary structure arising from purely domestic reasons? Then the Bank of Canada would have to struggle against its taking place and try to restrict or confine that extension.

Q. How would you do that?—A. By trying to hold down the cash reserves of the chartered banks and making it more difficult or even impossible for them to expand credit.

Q. You have that power now?—A. We have the power as indicated in my earlier remarks, because we can refuse to buy government securities and we can exercise the power in that very drastic way. But sometimes it is inadvisable, and one might have to struggle with the situation in a way that was less than drastic. But we would hope it would be partially effective.

Q. If you have the power to do that, you could do it and they would have to abide by your decision.—A. It is not so much a question of abiding by a decision as in finding that there is not sufficient cash to permit of expansion. And if it was entirely a domestic problem and arose from possible undue expansion of our credit structure, then I would think that even though the remedy was quite drastic, it would be used because it would be effective in a way in which it cannot be effective when inflation comes to us from abroad.

There could be in those two cases one other possibility. There could be another inflationary threat in the country arising not so much from bank expansion by the banks' own volition, so to speak, but from public activities, for example, a continuing and very substantial deficit which the government was trying to finance through the banking system.

Q. Is that something which the Bank of Canada would advocate, then? —A. No, but you were asking what we might do if there was an inflationary situation. If it arose from the government sector of the economy then it is highly impractical or highly unsatisfactory in its consequences for the central bank to struggle continuously against the government.

If the central bank felt that what the government was doing was productive of an inflationary situation, then it must try to tender advice in regard to doing something about it. And if that advice is not well received, then a continuing struggle is inadvisable. Some kind of a change in the set-up would be better.

Q. My next question then is: If you saw a period of deflation coming, just what would you do as Governor of the Bank of Canada?—A. Assuming the concurrence of the directors and assuming also the benevolence of the government in regard to the policy followed, one would try to make money easy to borrow and try to encourage that.

Q. In what way?—A. By increasing the cash reserves of the chartered banks which permeate through the entire economy and through the whole structure of interest rates.

Q. That is what we are doing now.—A. I hate to speak about recent events, but there does seem to have been an easier situation for quite some months past.

Mr. CAMERON (*Nanaimo*): In line with the question asked, you say they would permeate through the entire economy?

The WITNESS: Oh, perhaps I should have said they would permeate through the whole financial structure.

By Mr. Johnston (Bow River):

Q. I have just one more question. What are you doing now as Governor of the Bank of Canada to offset this rather urgent unemployment problem? —A. The Bank of Canada can only work in the monetary field.

Q. I understand that, but what are they doing now?—A. I find it very difficult to speak of its policy; but we spoke of it or you spoke of it just a moment ago.

Q. That is not answering my question.—A. Having in mind that we must be limited to the field of monetary policy, then if you ask me what are we doing outside the field of monetary policy I would say "nothing" because we must remain within our field.

Q. I understood that you could not do anything outside your monetary policy field except to advise the government that they were not doing the proper thing. Whether or not they accept your advice is a different proposition. But isn't the Bank of Canada doing something now with which will, as a result, have an effect on our unemployment problem?—A. As I mentioned

a moment ago, the situation in the money market is easier than it was four or five months ago. I do not know, but perhaps as a result of that or perhaps because of a rise in the American bond market, government interest rates on long-term bonds are distinctly less than they were five months ago.

Q. You spoke about doing something in the monetary market.

The CHAIRMAN: Easing the money market.

Mr. JOHNSTON (*Bow River*): That is quite right.

By Mr. Johnston (Bow River):

Q. What is that?—A. We tighten or ease the cash level. That is our sole function.

Q. And if that does not have an effect on our credit situation, there is just nothing the bank will do or can do?—A. The bank is there only to serve this particular purpose.

Q. Might I put it this way: that if the government thought—and I am now coming to government policy—if the government thought that the Bank of Canada was not doing enough in the field in which they operate to make money more available and to offset unemployment, you would take steps to see that government policy was implemented. Is that right?—A. I do not suggest that if the government felt that the Bank of Canada was not doing enough—

Q. If monetary policy was not easy enough?—A. If the government said to us: we think you should be operating much more strongly and to a greater degree, naturally we would listen to them. If we thought that the type of policy which the government wanted to implement was a very bad one and not in the public interest, then in one form or another I assume there would be a change in management.

Q. What do you have in mind when you say that they might suggest something which would cause you to resign?—A. You were referring to an attitude of the government, I thought, which in the opinion of management was so extreme that it was not in the public interest. This would be a matter of opinion. The opinion of the government might be right and that of management might be wrong. But if the government was firm in its opinion, it would get it implemented.

Q. Then I suppose we could assume that the unemployment problem is a direct result of government policy.

The CHAIRMAN: That was a profound conclusion. Now, Mr. Johnson (*Kindersley*).

Mr. CANNON: Mr. Chairman, I wonder if I might at this time ask one question arising out of what Mr. Johnston of Bow River asked, just for my own personal satisfaction and to be sure that I understand it.

The CHAIRMAN: Very well.

By Mr. Cannon:

Q. I understand that in order to make money easier you buy government bonds?—A. Yes.

Q. Now, I am looking at your statement of the 31st of December, 1953, and apart from government bonds and fixed assets, all your assets amount to only about \$90 million.—A. Yes.

Q. Suppose you thought you had to purchase government bonds for an amount exceeding \$90 million, in order to bring about an effect you are seeking. How would you pay for the balance of the government bonds for which you did not have assets which you could use immediately for that purpose?—A. Well, my reply will cause Mr. Low to spring at me from one

side and Mr. Macdonnell from the other because we pay for additional government bonds by crediting the amount on our books, namely the deposit accounts of the chartered banks. Whether we bought the bonds from them or not, it does not matter; and there is no limit to the extent to which that process can go on.

Q. There is no limit. That is what I thought. Now, in the extreme case would you not simply issue new money?—I suppose it would be a simple money entry on your books—and pay for those bonds, thereby increasing the amount of money in circulation?—A. Any amounts entered in our books which increase the deposits of the chartered banks in effect create new money.

Q. This does create new money?—A. Yes.

Q. At some time during the hearing you said that there was no limit to the amount of money that might be issued at any time?—A. That is true.

Q. Do you not think it would be a good thing if such a limit were established?

The CHAIRMAN: We had a very full discussion on that matter earlier in the day.

By Mr. Fleming:

Q. What is the maximum amount that the Bank of Canada has acquired of government bonds at any one time—perhaps I should say “held”, and when was it?—A. I should say that the present figure is not very far from the maximum. If there is a difference it is very small. We presently have on hand about \$2,200,000,000.

The CHAIRMAN: A fair savings account.

By Mr. Johnson (Kindersley):

Q. This is an administrative question. Who formulates the policy of the Bank of Canada?—A. The directors and the senior management.

Q. Who has the larger responsibility of that between the directors, yourself and the deputy?—A. Under the law a very heavy responsibility is placed on the Governor of the bank.

Q. It states in the Act, section 6, paragraph 2 (d) that both yourself and your deputy are not allowed to be a shareholder or director in any other bank or financial institution. What is the purpose of this limitation?—A. The purpose is to make sure, as it says in other portions of the Act, that the Governor and Deputy Governor do nothing but work for the Bank of Canada, and that it has their undivided and impartial interest.

Q. If it is undesirable for you and the deputy, what is your view relating to the directors of the Bank of Canada?—A. The directors are not allowed to be shareholders, still less directors of any chartered bank.

Q. That does not refer to other institutions?—A. No, it does not.

Q. Because I notice that ten directors hold directorships or positions of responsibility in other private corporations?—A. That is very true. It is very helpful to have people on our board who know something about business.

Q. It says under section 10 that the directors shall be selected from diversified occupations. I notice, too, that there are insurance companies and trust companies referred to in your directorship?—A. As you know the directors are appointed by the government within the terms of the law.

Q. In that same regard does the statement that the directors shall be selected from diversified occupations intend they shall be representative of the various aspects of life in Canada. Is that true?—A. Well, it is anyone's interpretation of the Act. Yes.

Q. A proportion of our population, of course, is involved in agriculture. Is there no agricultural organization represented on the board of directors. Would that be desirable?—A. That is a matter for the government to decide.

The CHAIRMAN: Mr. G. G. Coote of Alberta is a farmer.

Mr. JOHNSON (*Kindersley*): But not a representative of any agricultural organization.

The CHAIRMAN: I thought all farmers were representative.

The WITNESS: There is no one on the board who considers he is representative of any special interest. He is there as, I would hope, a man of integrity and capacity to give his best advice in that individual capacity, not as representing any special interest.

By Mr. Johnson (Kindersley):

Q. Do you think that it would be undesirable to have such members on the board?—A. Highly undesirable from my point of view but that is a matter of government policy.

By Mr. Noseworthy:

Q. Mr. Towers, did I understand you this morning to say that the government did not during the war years repay any of its debts?—A. I corrected my exact phraseology later by saying that as bond issues came to maturity they were paid but refunded in other issues. The essence of what I said would be really represented by a statement that the debt kept increasing during the war years.

Q. What was the approximate amount that was refunded year by year?—A. I could make up a statement of that, but there are issues maturing from time to time and they are refunded again and again. The turnover is tremendous. I could make a statement, although I do not think it would be very revealing.

Q. What is the amount, say, being refunded now in the current year?—A. Perhaps you have reference to the call which was issued on Saturday calling the victory loan issues maturing in 1956 and 1957. The amount called for June 1, is \$847 million approximately, and on October 1, something over \$1 billion.

Q. During the war years when the government borrowed in this period, the short term loans were repaid out of the funds collected during the victory loans?—A. Very often those borrowings were reduced substantially immediately after the new funds came in from the victory loan and might be reborrowed later.

Q. How would those repayments to the banks be shown in the banking accounting system? Suppose that the government borrowed, say, \$5 million in a short term and then paid it. Would that be shown as increased assets?—A. When the government borrowed it would show as an increase, other things being equal, of \$5 million in the bank holdings of government securities, and when they were repaid, a decrease.

Q. What would be the effect on the assets of the bank?—A. Of the chartered bank?

Q. Yes.—A. Other things being equal there would be an increase of that amount or a decrease of that amount.

Q. When the government paid the banks for that \$5 million loan, that would be \$5 million that go into the bank?—A. The government presumably would have \$5 million in its account with the chartered banks, and would take \$5 million from those accounts to redeem \$5 million securities.

Q. It would not increase the assets at the bank?—A. I think there is perhaps a confusion here in my understanding of your question. When you pay back a loan to a bank you reduce its assets.

Q. My point is, when the bank receives from the government, say, \$5 million in payment of a loan, does that mean that the assets of the bank are increased by that amount?—A. In the ordinary course of events the government would have had that money on deposit with the chartered banks, in its accounts, with the chartered banks. It would redeem the \$5 million securities, the banks assets would go down \$5 million, and their liabilities would go down \$5 million. I think that that is the normal method and about all I can say.

Q. In other words, the one would offset the other? The liabilities would offset the other?—A. Both sides of the balance sheet would come down.

Q. The position of the bank would be exactly the same after the amount was refunded as before?—A. No. After it was refunded the banks would have \$5 million less in earning assets, and \$5 million less in liabilities.

Q. Which makes the position exactly the same.—A. Not from an earnings point of view. No.

Mr. FLEMING: It would have an effect on the quantity of money in existence?

The WITNESS: Yes, other things being equal.

By Mr. Noseworthy:

Q. Does that mean there would be \$5 million more in circulation?—A. No.

Q. Withdrawn from circulation?—A. Withdrawn from government account, yes.

Q. What happens to it?—A. The government deposit, so to speak, is cancelled by being used to redeem the security.

Q. What happened to that \$5 million?—A. You mean where did the government get the \$5 million? For example, in the Canadian savings bond campaign last August, the public bought a very substantial amount of Canadian Savings bonds. They paid the government for those bonds by cheques on bank accounts. So, there was a big shift from deposits of the public in the banking system to deposits of the government in the banking system. A little later on the government did a substantial redemption of short term securities. Had other things been equal, the deposits of the government and public would have been down and bank assets would have been down. One of the catches is other things are never equal. While savings deposits were down for a while they have gone up again.

The CHAIRMAN: Mr. Noseworthy, would you mind dropping it. I am entirely confused. Get on to something I can understand.

By Mr. Noseworthy:

Q. What I am trying to get at is this: let us assume that the government deposits with the bank \$5 million in government bonds. The government withdraws that credit through cheques and no money actually passes out.—A. Not at the moment. The government uses its deposits to pay off the debt. What may have happened at an earlier date arising from government activities is something else again.

Q. But the bank has that \$5 million government bond?—A. Yes.

Q. It issues cheques to contractors or people from whom it purchases and those cheques go back and are charged up against the \$5 million in the bank?—A. Oh, no. In the first instance when the government borrowed the money—assuming that this had been a security purchased by the banks from the government, at the moment of doing so they would have credited the government account and it is the government then who would have issued cheques to contractors or others, and not the banks.

Q. But my point is that the banks get that \$5 million government bond, let us say. The government has a credit with the banks of \$5 million. Correct?—A. Based on its account, that is right.

Q. The government proceeds to issue cheques against that \$5 million?—A. Yes.

Q. No money is actually paid out by the banks?—A. You mean no cash?

Q. Yes.—A. Well, it depends upon who gets the cheques. If the recipient of the government cheques wants to get cash for his current requirements or to put it in his mattress then the bank pays out cash.

Q. In actual practice about 10 per cent would do that?—A. By and large the recipients of cheques would deposit them in their accounts at the banks. That is what banking is.

Q. With the result that the only cost to the bank of the transaction would be the cost of handling those cheques?—A. Oh, no. It would be the cost of handling the cheques and bookkeeping, and the cost of paying interest on that portion of them that went into savings accounts; plus the general cost of operation.

Q. Interest on the cheques deposited into savings accounts.—A. Yes.

Q. One per cent or something like that?—A. Two per cent.

Q. But when the government wants to redeem that bond, it pays the par value to the banks.—A. Yes, it does; it pays the contractual obligation.

Q. Sort of a profitable transaction for the banks?—A. What have they paid for the bond in the first place?

Q. They did not. The government deposited it.—A. I am sorry, Mr. Noseworthy. I have fallen into the same state as the chairman.

The CHAIRMAN: Gentlemen, that concludes Mr. Towers' evidence, and on your behalf I want to thank him very much. We may recall him at a later date. I will call Mr. Taylor now.

Mr. MACDONNELL: I have a supplementary question which Mr. Towers can answer. He said it was very much easier to answer questions when they were asked in respect of another country. I am going to ask him this question, whether he could comment on the extract from the "London City Press" that I read today, whether he thought that was sensible or otherwise?

The WITNESS: They have such a long and ancient history of special rules that I really do not feel myself qualified to comment.

The CHAIRMAN: We will leave it at that.

Mr. HUNTER: I have a question which has nothing to do with anything. When do we get a bank note with a picture of the Queen on it?—A. I hope September or October.

The CHAIRMAN: I would like to take a few minutes to have Mr. Taylor put a short statement on record, that will give you an opportunity to consider it before the next meeting.

Mr. K. W. Taylor, Deputy Minister of Finance, called:

Mr. Chairman, I have not prepared a lengthy statement for the committee. The minister in moving the second readings of the two bills dealt with all the important changes that have been proposed. The Governor of the bank in his opening statement and throughout his evidence seems to me to have covered fully the whole range of monetary and economic questions. The Inspector-General of Banks, Mr. Elderkin, has already filed a considerable amount of statistical information, and is available either for more facts and figures or for explanation of Bank Act procedures.

In the course of the debate in the House one point came up several times on which I may be of some help: that is, the matter of intermediate farm credit.

Thanks to a bit of overtime work by our staff and the co-operation of the Queen's Printer, the minister expects to table in the House tomorrow the annual report of the operations under the Farm Improvement Loans Act for the calendar year 1953. This will provide the committee with up-to-date information.

The Farm Improvement Loans Act is just starting its tenth year of operations. It authorizes the chartered banks to lend money to farmers for periods up to 10 years at 5 per cent simple interest. The maximum amount that may be on loan to any farmer under the Act is \$4,000. Most of the loans made are for about a 3-year period, and the average size of loan has been about \$1,200. The government guarantees each bank against loss up to a maximum of 10 per cent of the total amount loaned by that bank in each three year period.

Losses so far have been small. The first three year period, 1945 to 1948, is now very close to being cleaned up. For that initial period the banks loaned \$34 million, the government has paid out \$29,000 in losses, and about \$100,000 is still owed by borrowers to the banks. Much of this \$100,000 is overdue, but I have no doubt a large part of it will eventually be collected. In any case, losses when this pool is finally closed are not likely to go much, if at all, over one-fifth of one per cent.

For the second three year period, 1948 to 1951, the banks loaned \$142,000,000; our losses to date have been \$53,000; and \$4,000,000 is still outstanding—most of this, of course, not yet due.

The past 9 years have, as we all know, been a run of exceptionally good years for this kind of business. I would expect a good deal higher rate of loss over an average long term period. Actually, the losses we have paid in 1953, though still very low, exceed the total of all loss payments in the previous eight years.

Both the banks and the farming community are now familiar with the Farm Improvement Loans Act. In the past two years the rate of lending has been very close to \$100,000,000 a year. The Act seems now to be fulfilling its function, and it is probable that the rate of increase in providing this type of credit will slow down toward a normal growth rate.

In the past 9 years the banks have loaned \$450,000,000 under the Act. Ninety per cent of the loans in number and value have been for the purchase of agricultural implements, 5 per cent have been for the construction of farm buildings, 3 per cent for the purchase of livestock, and 2 per cent for all other purposes. About 70 per cent of all loans are made on the prairies, 13 per cent in Ontario, 10 per cent in Quebec, 3 per cent in British Columbia, and 4 per cent in the four Atlantic provinces. A trend toward greater use of the Act in Quebec and in the Atlantic provinces has been noticeable in the past 2 or 3 years.

The only other matter I should like to mention, and one which will I think be of interest to the committee, is the banker-customer relationship between the chartered banks and the government.

The banks are very large owners of government bonds. Their security portfolios in the year 1953 showed average holdings of more than \$2,800 million, in maturities ranging from three-months Treasury Bills to issues of the longer terms. Through their 3,900 Canadian branches, they are also one of the most important factors in bond dealings between the government and

the public. In the twelve months ended November 30, 1953, the banks cashed for the public over 17 million government bond coupons with a total value of over \$176 millions.

The Bank Act requires the chartered banks to cash all cheques or similar instruments drawn on or in favour of the Receiver General without charge. The committee will be interested in a few statistics on the volume of government business passing through the chartered banks. The following figures relate to the calendar year 1953:

- (1) The banks cashed almost 48 million government cheques in an amount of approximately \$4.8 billion;
- (2) They cashed over 38 million post office money orders in an amount of approximately \$578 million;
- (3) They made 889,000 remittances to the Receiver General covering \$5.7 billion, the proceeds of millions of individual payments with respect to income taxes, duties, other revenues and collections.

This means that including bond coupons the banks handle about 2,000,000 "pieces of paper" a week in operating the government's bank accounts, and the transactions represented by these 2 million pieces of paper exceed \$100,000,000 a week.

To cover these millions of transactions passing through the banks the government has to keep substantial deposit balances in each bank. The daily average of these balances during 1953 was about \$182 million. This average was a good deal higher than usual because it was greatly affected during the last two months of the year by the proceeds of the highly successful Canada Savings Bond campaign. Normally we find that we should keep working balances in the banks equal to about one week's disbursements, if we are to be sure that each bank will always be in funds to meet cheques presented to them for payment. For short periods our balances may drop to \$50,000,000 or less, but normally they are around \$100,000,000.

There are many other services that the banks have, from time to time, been asked to perform for the government, and on behalf of the Department of Finance, I am glad to say that they have cooperated in a very satisfactory manner.

The administration of the Bank Act is, as you know, under the authority of the Minister of Finance and the responsible officer in the Department is the Inspector-General of Banks. Mr. Elderkin is prepared to attend at all meetings of the committee to explain the changes proposed in Bill 338 and he will, I am sure, be pleased to furnish you with all available information that you require.

The CHAIRMAN: Gentlemen, the purpose of having this put on the record at this time is to enable you to have it in your hands before the next meeting. Mr. Taylor will be here on Thursday morning.

Mr. JOHNSTON (*Bow River*): Will the committee reports be printed in time for our next meeting?

The CHAIRMAN: There are three committees sitting today and they are all probably as vocal as we are, so there is going to be some difficulty. Although we have priority, it may not be much good at this particular time, and as it relates to the next sitting. I had four copies of the statement and I distributed them so that questions could be asked at the next meeting. What I am thinking of is this: Mr. Taylor is assisting the minister in preparing the budget; but we will have him here on Thursday morning and we hope to finish with him at that time. He certainly will not be available after Thursday, but he can come back later. I would think that Mr. Elderkin would be our witness on Thursday afternoon. Some of you would like to talk about contingent reserves, he is the best one to give you a "no" answer on that. In any event

there is something he can say about it before the minister comes before the committee, It will be an opportunity for him to give you the background of the problem.

Mr. TUCKER: Mr. Chairman, since Mr. Taylor is so busy and cannot be available to the members of the committee, would there be any harm in our having Mr. Elderkin come on Thursday morning?

The CHAIRMAN: The Farm Improvement Loans Act I think is one of the important matters before this committee, I thought you might exhaust it with Mr. Taylor on Thursday the banks would be following him and you would want to question the bankers about it.

Mr. TUCKER: We would not get through with Mr. Taylor anyway on Thursday morning so why not let him off on Thursday morning to do the work that he has to do, because two hours will not begin to finish with his examination.

The CHAIRMAN: This is what it will do: You will give him an idea of the problems you have in mind, and we could continue with him later on. The next meeting will be on Thursday morning.

The committee adjourned.

Appendix A

EXHIBIT No. 20

Trust companies having directors who are also directors of chartered banks
at January 31, 1954

Barclays Trust Co. of Canada

Barclays Bank (Canada), Crossley, J. S., Elder, A. H., MacTier, W. S. M.,
Stevenson, H. A., Vale, J. H. G. F.

British West Indies Trust Co. Ltd.

Barclays Bank (Canada), Wright, P.

Canada Permanent Trust Co.

Bank of Montreal, Burchell, C. J., MacAuley, J. A.
The Bank of Toronto, Carmichael, H. J., Gillett, L. G., Gooderham, H. S.
The Canadian Bank of Commerce, MacDonald, E. L.
The Dominion Bank, Pigott, J. M.
Imperial Bank of Canada, Aikins, G. H.

Canada Trust Co.

Bank of Montreal, Wallace, C.
The Canadian Bank of Commerce, Farrell, G., Hart, J., Harvie, E. L.,
MacMillan, H. R.
The Royal Bank of Canada, Lawson, R.
Imperial Bank of Canada, Buckerfield, E. E.

Canadian Bank of Commerce Trust Co. (New York)

The Canadian Bank of Commerce, Fuller, H. J.

Chartered Trust Co.

Bank of Montreal, Leitch, G. C.
The Bank of Nova Scotia, Whiteford, W. K.
The Royal Bank of Canada, Urquhart, N. C.
The Dominion Bank, Smith, W. D.

Crown Trust Co.

Bank of Montreal, Berkinshaw, R. C.
The Canadian Bank of Commerce, Campbell, G. P., McDougall, J. A.
The Royal Bank of Canada, Phillips, W. E.
The Dominion Bank, Bruce, H. A.
Imperial Bank of Canada, Davis, N. M., Horsey, J. W.

Eastern Trust Co.

The Bank of Nova Scotia, Enman, H. L., Fraser, A. S., Mackay, H.,
Manning, F. C.
The Bank of Toronto, Campbell, A. H.
The Canadian Bank of Commerce, Kelley, W. A. G.
The Royal Bank of Canada, MacKeen, J. C.

Empire Trust Co., New York

The Canadian Bank of Commerce, Duncan, J. S., Harvie, E. L.
Banque Canadienne Nationale, Brais, F. P.

Guaranty Trust Co. of Canada

Banque Canadienne Nationale, Major, A. J.
The Mercantile Bank of Canada, Carswell, J. B.

Imperial Trust Co.

The Royal Bank of Canada, Webster, C. W.

Investors Trust Ltd.

Bank of Montreal, Burchell, C. J.

Maritime Trust Co.

The Bank of Nova Scotia, Mackay, H., Wilson, C. N.

Montreal Trust Co.

The Canadian Bank of Commerce, Foster, G. B.

The Royal Bank of Canada, Atkinson, T. H., Crabtree, H., Forsyth, L. A.,

Grauer, A. E., Harkness, R. D., Howard, W. H., Milner, H. R., Mitchell, B. L.,

Muir, J., Phillips, L., Riley, C. S., Stewart, J. M., Tory, J. S., Webster, C. W.

Banque Canadienne Nationale, Brais, F. P.

National Trust Co. Ltd.

Bank of Montreal, Dinning, R. J., Laidlaw, R. A.

The Bank of Nova Scotia, Burns, H. D., Macklaier, W. F., McCarthy, J. L.,
Sherman, F. A.

The Bank of Toronto, Pearson, H. E.

The Canadian Bank of Commerce, Borden, H., Fox, E. C., Gill, E. C.,

Mitchell, A. N., Morrow, G., Wedd, S. M., White, Sir T.

The Royal Bank of Canada, Taylor, E. P.

The Dominion Bank, Bryce, R. A., Eaton, R. Y., Tanner, N. E.

Northern Trusts Co.

The Bank of Nova Scotia, Murphy, W. A.

The Canadian Bank of Commerce, Stuart, J.

The Royal Bank of Canada, Riley, C. S.

The Dominion Bank, Gourley, R. J., MacPherson, M. A.

Northumberland Trust Co.

The Royal Bank of Canada, Howard, W. H.

North West Fidelity Trust Co. Ltd.

The Royal Bank of Canada, Milner, H. R.

Nova Scotia Trust Co., The

The Royal Bank of Canada, Forsyth, L. A.

Osler & Nanton Trust Co.

The Dominion Bank, Osler, G. P.

Pan-American Trust Co.

Bank of Montreal, Dunning, C. A.

Royal Bank of Canada Trust Co., New York

The Royal Bank of Canada, McDonald, E. C., Muir, J.

Royal Trust Co., The

Bank of Montreal, Ball, G. R., Belnap, L. J., Bourke, G. W., Dawes, N. J.,

Drummond, H. R., Dunning, C. A., Gardiner, B. C., Gordon, G. B., Hilton, H. G.,

Ivey, R. G., Mather, W. A., Mewburn, S. C., Powell, R. E., Sise, C. F.

The Canadian Bank of Commerce, Harris, J.

The Royal Bank of Canada, Searle, S. A.

Banque Canadienne Nationale, Raymond, A.

Imperial Bank of Canada, Fox, P. M., Sellers, H. E.

Scottish Trust Co., The

Bank of Montreal, Mather, W. A.

Sherbrooke Trust Co.

Banque Canadienne Nationale, Nicol, J.

Societe D'Administration et de Fiducie, La

The Bank of Nova Scotia, Asselin, E.

The Provincial Bank of Canada, Brilliant, J. A., Grothe, R. O., Labelle,

J. E., Patenaude, E. L.

Banque Canadienne Nationale, Gagnon, W.

The Mercantile Bank of Canada, Bouffard, P. H.

Societe Nationale de Fiducie

Banque Canadienne Nationale, Laurendeau, C.

Sun Trust Ltd.

Banque Canadienne Nationale, Gagnon, W.

Toronto General Trusts Corporation

The Bank of Nova Scotia, Frost, C. S., Harris, W. C., MacLaren, C. R.

The Bank of Toronto, Gordon, J. R., Matthews, A. B., Winspear, F. G.

The Canadian Bank of Commerce, Pitblado, I., Riley, W. P., Sale, R. M.

The Dominion Bank, Hamber, E. W., Osler, G. P.

Imperial Bank of Canada, Bishop, A. L., Cockshutt, C. G., Frosst, E. S.,

Laidlaw, W. C.

Trust General du Canada

The Provincial Bank of Canada, Beaulieu, L. E.

The Canadian Bank of Commerce, Raymond, D.

Banque Canadienne Nationale, Amyot, L. J. A., Cousineau, A., Dessureault, J. M., Donohue, G. T., Nicol, J., St. Pierre, C.

Waterloo Trust and Savings Co.

Bank of Montreal, Lang, L. L.

Imperial Bank of Canada, McCulloch, H. L.

EXHIBIT No. 21

Insurance Companies Having Directors Who Are Also Directors Of Chartered Banks At January 31, 1954.

Acadia Fire Insurance Co.

Bank of Montreal, Berkinshaw, R. C.

Alliance Nationale

The Provincial Bank of Canada, Brillant, J. A., Patenaude, E. L.,

Prefontaine, C. E.

Banque Canadienne Nationale, Gagnon, W.

British America Assurance Co.

The Bank of Nova Scotia, McCarthy, J. L.

The Canadian Bank of Commerce, Gill, E. C., Morrow, G., Wedd, S. M.

British-Canadian Insurance Co.

The Bank of Nova Scotia, McCarthy, J. L.

The Canadian Bank of Commerce, Morrow, G.

British Empire Assurance Co.

The Bank of Nova Scotia, McCarthy, J. L.

The Canadian Bank of Commerce, Morrow, G.

Canada Life Assurance Co.

Bank of Montreal, Laidlaw, R. A.

The Bank of Nova Scotia, Enman, H. L., McCarthy, J. L., Whiteford, W. K.

The Canadian Bank of Commerce, Gill, E. C., Mitchell, A. N., Stuart, J.,

Wedd, S. M., White, Sir T.

Canadian Fire Insurance Co. Ltd.

The Bank of Nova Scotia, Murphy, W. A.

The Royal Bank of Canada, Riley, C. S.

Imperial Bank of Canada, Aikins, G. H.

Canadian General Insurance Co.

Bank of Montreal, Ivey, R. G.

The Royal Bank of Canada, Webster, C. W.

- Canadian Indemnity Co. Ltd.
 The Bank of Nova Scotia, Murphy, W. A.
 The Royal Bank of Canada, Riley, C. S.
 Imperial Bank of Canada, Aikins, G. H.
- Canadian Reciprocal Underwriters.
 The Canadian Bank of Commerce, Riley, W. P.
 Banque Canadienne Nationale, Gagnon, W.
- Canadian Surety Co.
 The Bank of Toronto, Lawson, H. H.
- Casualty Co. of Canada.
 The Bank of Toronto, Gillett, L. G., Gooderham, H. S., Savage, L. M.
- Central Insurance Co. Ltd.
 The Royal Bank of Canada, Dupuis, R.
- Charter Oak Fire Insurance Co.
 The Canadian Bank of Commerce, Foster, G. B.
- Commonwealth Insurance Co.
 The Royal Bank of Canada, Milner, H. R.
 The Dominion Bank, Osler, G. P.
- Cie D'Assurance Canadienne Mercantile.
 The Provincial Bank of Canada, Patenaude, E. L.
 Banque Canadienne Nationale, Nicol, J.
- Cie D'Assurance Canadienne Nationale.
 Banque Canadienne Nationale, Nicol, J.
- Cie D'Assurance Mutuelle du Commerce Contre L'Incendie.
 The Provincial Bank of Canada, Patenaude, E. L.
 Banque Canadienne Nationale, Nicol, J.
- Confederation Life Association.
 The Bank of Toronto, Trumbull, J. L.
 The Canadian Bank of Commerce, Campbell, G. P.
 The Royal Bank of Canada, Phillips, W. E.
 The Dominion Bank, Bryce, R. A.
 Imperial Bank of Canada, Laidlaw, W. C., Rolph, F. G., Waldie, R. S.
- Consolidated Fire & Casualty Insurance Co.
 The Bank of Nova Scotia, Gardiner, P. R.
 The Dominion Bank, Pigott, J. M.
 Imperial Bank of Canada, Northey, J. A.
- Continental Life Insurance Co.
 Banque Canadienne Nationale, Nicol, J.
 Imperial Bank of Canada, Northey, J. A.
- Crown Life Insurance Co.
 Bank of Montreal, Wallace, C.
 The Bank of Nova Scotia, Burns, H. D., Jodrey, R. A.
 The Dominion Bank, Bruce, H. A.
 Banque Canadienne Nationale, St. Pierre, C.
- Desjardins Life Assurance.
 The Dominion Bank, deBilly, V. A.
- Dominion Atlantic Insurance Co. Ltd.
 The Canadian Bank of Commerce, Pratt, Hon. C. C.
- Dominion of Canada General Insurance Co.
 The Bank of Toronto, Gillett, L. G., Gooderham, H. S., Savage, L. M.
- Dominion Life Assurance Co.
 Imperial Bank of Canada, Cockshutt, C. G.

Eaton Life Assurance Co., The T.

The Dominion Bank, Eaton, J. D.

Employers' Liability Assurance Corp'n. Ltd., The.

Banque Canadienne Nationale, St. Pierre, C.

Employers' Liability Assurance Corp'n. Ltd. of London, England, The.

The Canadian Bank of Commerce, Duncan, J. S.

Excelsior Life Insurance Co.

The Bank of Toronto, Carson, J. L., Gooderham, H. S., Matthews, A. B.

The Royal Bank of Canada, Taylor, E. P.

Export Credits Insurance Corp'n.

The Canadian Bank of Commerce, Stewart, J.

Federal Fire Insurance Co.

The Dominion Bank, Bruce, H. A.

Imperial Bank of Canada, Laidlaw, W. C.

Fire Insurance Co. of Canada.

The Canadian Bank of Commerce, Raymond, D.

Banque Canadienne Nationale, Raymond, A.

Imperial Bank of Canada, Timmins, J. R.

General Accident Assurance Co. of Canada.

Imperial Bank of Canada, Baillie, A. W., Waldie, R. S.

General Security Insurance Co.

The Bank of Nova Scotia, Graham, F. R.

Globe Indemnity Co. of Canada.

Bank of Montreal, Ball, G. R., Dunning, C. A., Gordon, G. B., Sise, C. F.

The Royal Bank of Canada, Dupuis, R., Johnson, J. D.

The Dominion Bank, deBilly, V. A.

Gore District Mutual Fire Insurance Co.

Imperial Bank of Canada, Cockshutt, C. G., McCulloch, H. L., Rolph, F. G.

Grain Insurance & Guarantee Co.

The Royal Bank of Canada, Searle, S. A.

Great-West Life Assurance Co., The.

Bank of Montreal, Mather, W. A.

The Canadian Bank of Commerce, Harris, J., Riley, W. P., MacMillan, H. R.,
Sale, R. M.

Imperial Bank of Canada, Aikins, G. H., Sellers, H. E., Walker, W. P.

Guarantee Co. of North America, The.

Bank of Montreal, Gordon, G. B., Sise, C. F.

Imperial Bank of Canada, Cockshutt, C. G., McCulloch, H. L., Northey, J. A.

Barclays Bank (Canada), Crerar, H. D., Elder, A. H.

Guardian Assurance Co. Ltd. of London, England

Bank of Montreal, Stavert, R. E.

Guardian Insurance Co. of Canada

Bank of Montreal, Stavert, R. E.

Halifax Insurance Co.

The Bank of Nova Scotia, Bell, R. P., Jodrey, R. A., Manning, F. C.

Hudson Bay Insurance Co.

Bank of Montreal, Ball, G. R., Gordon, G. B., Sise, C. F.

The Royal Bank of Canada, Dupuis, R., Johnson, J. D.

The Dominion Bank, deBilly, V. A.

Imperial Guarantee and Accident Insurance Co.

The Bank of Nova Scotia, McCarthy, J. L.

The Canadian Bank of Commerce, Morrow, G.

- Imperial Life Assurance Co. of Canada, The
 The Bank of Nova Scotia, Frost, C. S., Harris, W. C.
 The Canadian Bank of Commerce, Morrow, G., Stewart, J.
 The Dominion Bank, Smith, W. D.
- Industrielle, Cie D'Assurance Sur La Vie
 The Provincial Bank of Canada, Levesque, J. L.
- Laurentian Life Assurance Co., The
 The Dominion Bank, deBilly, V. A.
- Life Insurance Co. of Alberta, The
 The Bank of Toronto, Winspear, F. G.
- Liverpool and London and Globe Insurance Co. Ltd.
 Bank of Montreal, Dunning, C. A., Gordon, G. B.
 The Royal Bank of Canada, Dupuis, R., Johnson, J. D.
- Liverpool-Manitoba Assurance Co.
 Bank of Montreal, Ball, G. R., Dunning, C. A., Gordon, G. B., Sise, C. F.
 The Royal Bank of Canada, Dupuis, R., Johnson, J. D.
 The Dominion Bank, deBilly, V. A.
- London Life Insurance Co., The
 The Canadian Bank of Commerce, Reid, R. H.
 The Dominion Bank, Jeffery, J.
- London and Yorkshire (Canada) Ltd.
 Bank of Montreal, Heward, C. G.
- Manufacturers Life Insurance Co.
 Imperial Bank of Canada, Bishop, A. L.
- Mercantile and General Reinsurance Co. Ltd.
 Barclays Bank (Canada), Crossley, J. S.
- Mercantile and General Reinsurance Co. of Canada Ltd.
 Barclays Bank (Canada), Stevenson, H. A.
- Merit Insurance Co.
 The Mercantile Bank of Canada, Bouffard, P. H.
- Metropolitan Life Insurance Co.
 The Royal Bank of Canada, McDonald, E. C.
- Missisquoi and Rouville Mutual Fire Insurance Co.
 Banque Canadienne Nationale, Nicol, J.
- Monarch Life Assurance Co.
 The Royal Bank of Canada, Phillips, L., Searle, S. A.
 The Dominion Bank, Gourley, R. J.
- Montreal Life Insurance Co.
 The Provincial Bank of Canada, Grothe, R. O.
 The Mercantile Bank of Canada, Bouffard, P. H.
- Mutual Life Assurance Co. of Canada
 Bank of Montreal, Berkinshaw, R. C., Gordon, G. B., Lang, L. L., Lietch,
 G. C., Mewburn, S. C., Sise, C. F.
 The Bank of Nova Scotia, Murdoch, J. Y.
 The Canadian Bank of Commerce, Pitblado, I.
 Imperial Bank of Canada, McCulloch, H. L.
- National Life Assurance Co. of Canada, The
 The Provincial Bank of Canada, Beauregard, E.
- National-Liverpool Insurance Co.
 Bank of Montreal, Dunning, C. A., Gordon, G. B., Sise, C. F.
- New York Reciprocal Underwriters
 Banque Canadienne Nationale, Gagnon, W.

- North American Life Assurance Co.
The Provincial Bank of Canada, Pratte, G.
The Royal Bank of Canada, Milner, H. R., Urquhart, N. C.
The Dominion Bank, Osler, G. P., Pigott, J. M.
Imperial Bank of Canada, Mackersy, L. S.
- North Empire Fire Insurance Co.
Bank of Montreal, Berkinshaw, R. C.
- Northern Life Assurance Co. of Canada
Bank of Montreal, Ivey, R. G.
- Norwich Union Fire Insurance Society Ltd.
The Canadian Bank of Commerce, Borden, H.
- Norwich Union Life Insurance Society
The Canadian Bank of Commerce, Borden, H.
- Occidental Fire Insurance Co.
The Bank of Nova Scotia, Macklaier, W. F.
- Phoenix Assurance Co. Ltd. (Of London, England)
Bank of Montreal, Berkinshaw, R. C., Bourke, G. W.
The Canadian Bank of Commerce, Campbell, G. P.
- Prévoyance, Cie d'Assurance, La
The Provincial Bank of Canada, Labelle, J. E., Ste. Marie, J. U.
Banque Canadienne Nationale, Raymond, A.
- Prévoyants du Canada, Les
The Bank of Nova Scotia, Asselin, E.
- Progressive Insurance Co. Ltd.
Banque Canadienne Nationale, Gagnon, W.
The Mercantile Bank of Canada, Bouffard, P. H.
- Prudential Insurance Co. of America
Barclays Bank (Canada), Elder, A. H.
- Quebec Fire Assurance Co.
The Royal Bank of Canada, Ross, J. T.
- Royal Exchange Assurance
Bank of Montreal, Gardner, B. C.
- Royal Insurance Co. Ltd.
The Royal Bank of Canada, Dupuis, R.
- Royal-Liverpool Insurance Groups
Bank of Montreal, Sise, C. F.
The Dominion Bank, deBilly, V. A.
- Scottish-Canadian Assurance Corpn.
Imperial Bank of Canada, Baillie, A. W., Waldie, R. S.
- Scottish Union & National Insurance Co.
Imperial Bank of Canada, Mackersy, L. S.
Barclays Bank (Canada), Wright, P.
- Sécurité, Cie d'Assurances Générales du Canada, La
The Provincial Bank of Canada, Beauregard, E.
- Société Nationale d'Assurance
Banque Canadienne Nationale, Laurendeau, C.
- Standard Life Assurance Co.
Bank of Montreal, Heward, C. G.
- Stanstead & Sherbrooke Insurance Co.
Banque Canadienne Nationale, Nicol, J., Raymond, A.

- Sterling Fire Insurance Co.
The Provincial Bank of Canada, Pratte, G.
- Sterling Insurance Co., The
Banque Canadienne Nationale, Nicol, J.
- Sun Insurance Office Ltd.
The Bank of Toronto, Matthews, A. B.
The Canadian Bank of Commerce, MacMillan, H. R.
Banque Canadienne Nationale, Brais, P. F.
- Sun Life Assurance Co. of Canada, The
Bank of Montreal, Ball, G. R., Bourke, G. W., Dunning, C. A., McMaster, R. H., Stavert, R. E.
The Royal Bank of Canada, Crabtree, H., Stewart, J. M., Tory, J. S. D., Grauer, A. E.
Banque Canadienne Nationale, Brais, P. F.
The Mercantile Bank of Canada, Cross, A.
- Toronto General Insurance Co.
The Royal Bank of Canada, Lawson, R.
- Travelers Fire Insurance Co., The
The Canadian Bank of Commerce, Foster, G. B.
- Travelers Indemnity Co., The
The Canadian Bank of Commerce, Foster, G. B.
- Travelers Insurance Co., The
The Canadian Bank of Commerce, Foster, G. B.
- United Provinces Insurance Co.
Banque Canadienne Nationale, Major, A. J.
- Wellington Fire Insurance Co.
The Dominion Bank, Bruce, H. A.
Banque Canadienne Nationale, Nicol, J.
Imperial Bank of Canada, Northey, J. A.
- Western Assurance Co.
The Bank of Nova Scotia, McCarthy, J. L.
The Canadian Bank of Commerce, Gill, E. C., Morrow, G., Wedd, S. M.
- Yorkshire Insurance Co. Ltd.
Imperial Bank of Canada, Boyd, J. A.

EXHIBIT No. 22

Loan Companies having Directors who are also Directors of Chartered Banks
at January 31, 1954

- Canada Permanent Mortgage Corpn.
Bank of Montreal, Burchell, C. J., MacAulay, J. A.
The Bank of Toronto, Gooderham, H. S.
The Canadian Bank of Commerce, MacDonald, E. L.
Imperial Bank of Canada, Aikins, G. H.
- Central Canada Investments Ltd.
Bank of Montreal, Laidlaw, R. A.
The Bank of Nova Scotia, Burns, H. D., McCarthy, J. L.
The Canadian Bank of Commerce, Gill, E. C., Morrow, G., Wedd, S. M.
- Consolidated Finance Co. Ltd.
The Bank of Toronto, Winspear, F. G.

Consolidated Finance (Western) Ltd.

The Bank of Toronto, Winspear, F. G.

Eastern Canada Savings & Loan Co.

The Royal Bank of Canada, MacKeen, J. C.

Empire Acceptance Corp'n. Ltd.

The Bank of Nova Scotia, Jodrey, R. A.

Empire Finance Co. Ltd.

The Bank of Nova Scotia, Jodrey, R. A.

Estate Finance Corp'n. Ltd.

Imperial Bank of Canada, Boyd, J. A.

Huron & Erie Loan Co.

The Royal Bank of Canada, Lawson, R.

Huron & Erie Mortgage Corp'n.

Imperial Bank of Canada, Buckerfield, E. E.

Industrial Acceptance Corp'n.

Banque Canadienne Nationale, Gagnon, W.

Monarch Mortgage Corp'n.

The Bank of Nova Scotia, Harris, W. C.

Pan-American Mortgage & Investment Corp'n.

Imperial Bank of Canada, Boyd, J. A.

Personal Finance Co.

The Royal Bank of Canada, Forsyth, L. A.

Toronto Savings & Loan Co.

Bank of Montreal, Laidlaw, R. A.

The Bank of Nova Scotia, Burns, H. D., McCarthy, J. L.

The Canadian Bank of Commerce, Gill, E. C., Logan, S. H., Morrow, G.,

Wedd, S. M.

Traders Finance Corp'n. Ltd.

The Canadian Bank of Commerce, Borden, H.

The Royal Bank of Canada, Lawson, R., Milner, H. R.

Universal Finance Corp'n.

Imperial Bank of Canada, Boyd, J. A.

Universal Finance Ltd.

Imperial Bank of Canada, Boyd, J. A.

Appendix B

EXHIBIT No. 23

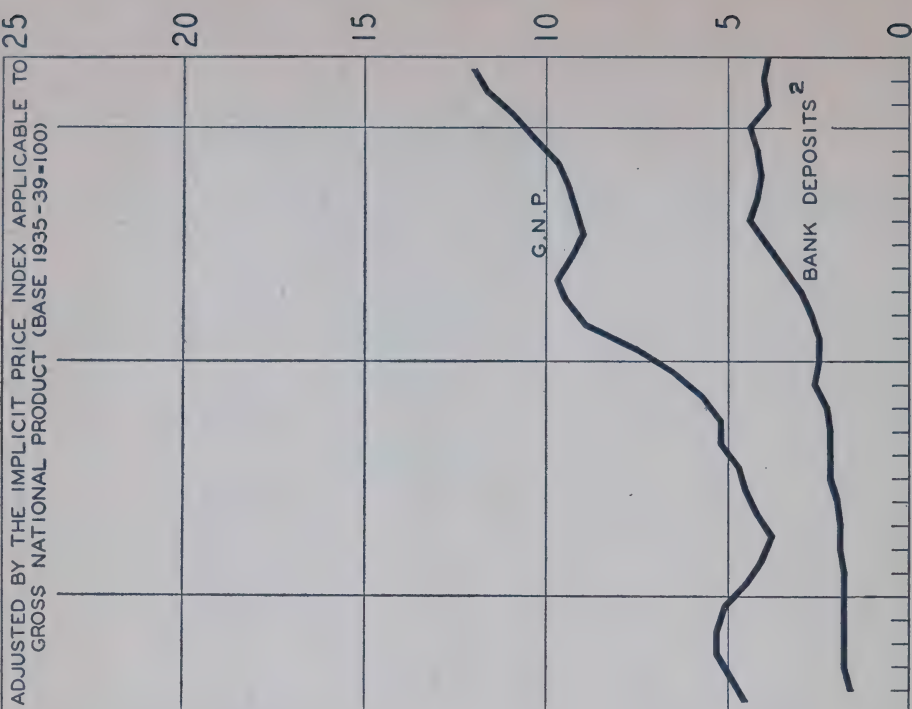
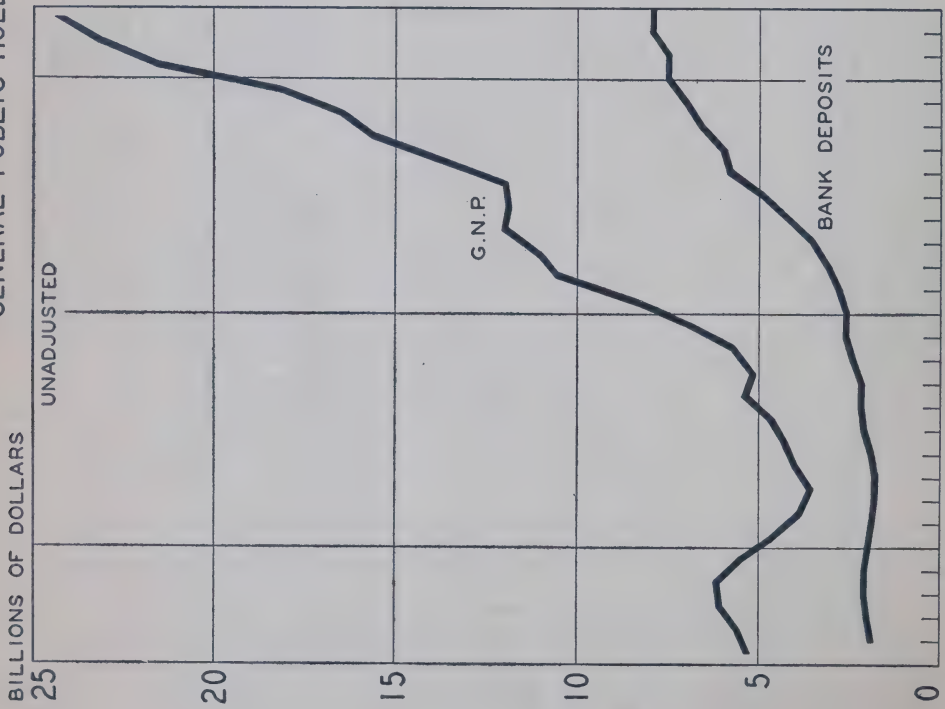
BANK OF CANADA

Statement of Ways and Means Advances to Government of Canada 1939 to 1953 Inclusive

Date	Amount of Advance	Repayment	Balance Due
Sept. 23, 1940	\$ 25,000,000		\$ 25,000,000
Sept. 27, 1940	3,000,000		28,000,000
Sept. 30, 1940	4,000,000		32,000,000
Oct. 1, 1940		\$ 32,000,000	Nil
Nov. 2, 1951	18,000,000		18,000,000
Nov. 3, 1951	53,000,000		71,000,000
Nov. 5, 1951		18,000,000	
Nov. 5, 1951		2,000,000	51,000,000
Nov. 6, 1951		16,000,000	35,000,000
Nov. 7, 1951		25,000,000	10,000,000
Nov. 8, 1951		5,000,000	5,000,000
Nov. 9, 1951		5,000,000	Nil
Nov. 4, 1952	60,000,000		60,000,000
Nov. 5, 1952	15,000,000		75,000,000
Nov. 6, 1952		35,000,000	40,000,000
Nov. 7, 1952		25,000,000	15,000,000
Nov. 10, 1952		5,000,000	10,000,000
Nov. 13, 1952		10,000,000	Nil
Nov. 17, 1952	45,000,000		45,000,000
Nov. 18, 1952		25,000,000	20,000,000
Nov. 19, 1952		10,000,000	10,000,000
Nov. 20, 1952		10,000,000	Nil
Jan. 2, 1953	55,000,000		55,000,000
Jan. 5, 1953	5,000,000		60,000,000
Jan. 6, 1953	10,000,000		70,000,000
Jan. 7, 1953		10,000,000	60,000,000
Jan. 8, 1953		45,000,000	15,000,000
Jan. 9, 1953		10,000,000	5,000,000
Jan. 12, 1953		5,000,000	Nil
Oct. 2, 1953	10,000,000		10,000,000
Oct. 6, 1953		10,000,000	Nil
	<u>\$303,000,000</u>	<u>\$303,000,000</u>	

GROSS NATIONAL PRODUCT AND GENERAL PUBLIC HOLDINGS OF BANK DEPOSITS¹

EXHIBIT No. 24
BILLIONS OF DOLLARS



¹ Year end figures.
² This adjustment to the current dollar bank deposit figures has been made in order to meet the request of a member of the Committee but

Appendix C

EXHIBIT No. 25

BANK OF CANADA

Staff⁽¹⁾ at Agencies

(December 31, 1953)

Calgary, Alberta, 10; Halifax, N.S., 7; Montreal, Quebec, 42; Ottawa, Ontario, 23; Regina, Saskatchewan, 7; Saint John, N.B., 7; Toronto, Ontario, 41; Vancouver, B.C., 12; Winnipeg, Manitoba 10.

⁽¹⁾ For statistics on the total staff of the Bank of Canada see Exhibit 2, page 783 of the minutes of proceedings and evidence.

EXHIBIT No. 26

National Accounts: Estimated Expenditure on Goods and Services⁽¹⁾

(millions of dollars)

	1945	1946	1947	1948	1949	1950	1951	1952	1953 ⁽²⁾
Personal Consumption Expenditure	6,811	7,977	9,173	10,112	10,963	12,029	13,297	14,334	15,035
Combined Federal, Provincial and Municipal									
Govt. Purchases of Goods and Services	3,704	1,832	1,570	1,798	2,128	2,326	3,243	4,231	4,450
Expenditure on New Housing, Plant and Equipment	986	1,398	2,121	2,685	2,968	3,216	3,810	4,265	4,701
Change in Inventories	-260	519	947	605	231	960	1,620	278	583
Exports (including Services)	3,597	3,210	3,638	4,054	4,011	4,183	5,089	5,581	5,450
Total Expenditures (including Import content)	14,838	14,936	17,449	19,254	20,301	22,714	27,059	28,689	30,219
Less Imports (including Services)	-2,910	-2,878	-3,621	-3,636	-3,837	-4,513	-5,613	-5,417	-5,900
Residual Error of Estimates	-78	-32	-60	-5	-2	2	20	-162	-77
Gross National Expenditure	11,850	12,026	13,768	15,613	16,462	18,203	21,466	23,110	24,242
(=Gross National Product)									

⁽¹⁾ Source: National Accounts, Dominion Bureau of Statistics.⁽²⁾ Preliminary.

EXHIBIT No. 27

Cheques cashed against Individual Accounts in Clearing House Centres*

1946: Jan., \$5,990,655,683; Feb., \$5,335,919,226; Mar., \$5,678,170,939; Apr., \$5,754,659,781; May, \$6,115,642,874; June, \$5,609,419,786; July, \$5,546,862,502; Aug., \$4,866,539,586; Sept., \$5,890,509,236; Oct., \$6,312,553,865; Nov., \$6,211,495,245; Dec., \$5,935,178,710.

1947: Jan., \$6,215,840,393; Feb., \$5,596,710,085; Mar., \$5,737,122,054; Apr., \$6,043,232,901; May, \$6,841,151,698; June, \$5,975,359,061; July, \$6,123,897,553; Aug., \$5,236,326,255; Sept., \$5,934,374,614; Oct., \$7,208,951,271; Nov., \$6,774,051,120; Dec., \$6,811,075,973.

1948: Jan., \$6,490,790,060; Feb., \$5,551,136,965; Mar., \$6,196,129,286; Apr., \$6,868,493,297; May, \$6,445,560,134; June, \$6,474,545,163; July, \$6,735,571,055; Aug., \$5,739,821,953; Sept., \$6,709,737,385; Oct., \$7,653,589,081; Nov., \$8,021,981,705; Dec., \$7,800,091,477.

1949: Jan., \$6,928,511,022; Feb., \$5,976,338,011; Mar., \$6,867,531,145; Apr., \$7,266,799,837; May, \$6,914,881,072; June, \$7,216,254,768; July, \$7,017,358,494; Aug., \$6,447,205,187; Sept., \$7,655,502,941; Oct., \$8,328,056,021; Nov., \$8,540,115,903; Dec., \$8,395,808,442.

1950: Jan., \$7,307,022,318; Feb., \$5,999,799,512; Mar., \$7,730,054,202; Apr., \$7,442,941,815; May, \$7,989,757,942; June, \$10,044,701,294; July, \$8,101,956,800; Aug., \$7,558,259,745; Sept., \$8,746,796,471; Oct., \$9,391,497,296; Nov., \$11,007,876,893; Dec., \$9,314,794,542.

1951: Jan., \$9,001,540,542; Feb., \$7,983,640,234; Mar., \$8,829,639,453; Apr., \$9,017,196,016; May, \$9,483,763,044; June, \$9,500,212,037; July, \$9,031,986,477; Aug., \$9,071,528,267; Sept., \$8,775,368,610; Oct., \$10,618,513,832; Nov., \$10,736,948,509; Dec., \$10,134,296,036.

1952: Jan., \$9,734,353,851; Feb., \$8,788,820,873; Mar., \$9,428,634,643; Apr., \$10,486,971,301; May, \$10,711,272,971; June, \$10,524,543,458; July, \$10,944,793,446; Aug., \$9,518,172,654; Sept., \$10,065,031,562; Oct., \$11,279,135,664; Nov., \$11,328,856,751; Dec., \$12,386,306,847.

1953: Jan., \$12,122,784,679; Feb., \$9,888,827,056; Mar., \$12,330,606,512; Apr., \$11,709,837,946; May, \$11,630,240,616; June, \$12,153,578,725; July, \$12,709,887,207; Aug., \$10,464,626,320; Sept., \$10,841,063,471; Oct., \$12,352,937,950; Nov., \$13,425,356,367; Dec., \$12,903,321,242.

*The number of clearing houses included is as follows: 1946-1948—34, 1949-1952—35, 1953—52.

Note: The publication by the Dominion Bureau of Statistics of Bank Clearings was discontinued in 1943.

ms. 20

Government
Publications

BINDING SECT. NOV 30 1979

Government
Publication

